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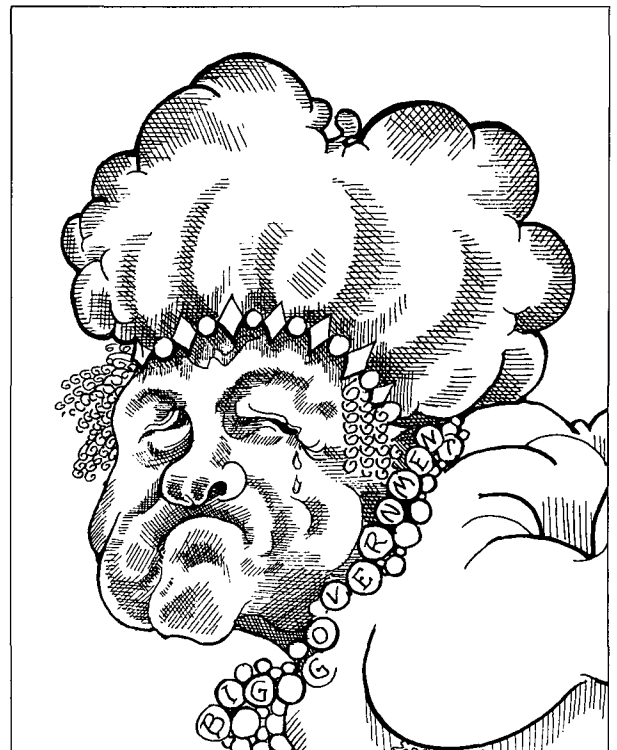
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Health Care Financing: What Next?

Henry Aaron ("End of an Era: The New Debate over Health Care Financing," winter issue) predicts three stages in the future debate over health care. The first stage will be a period of rising numbers of uninsured with declining access to care. The evolution of the private managed care market, coupled with payment limits under Medicare and Medicaid, will erode the payment cross-subsidies for providers that have traditionally financed care for those who are not covered. The second stage is a period of growing popular discontent, and the third is action, in the form of a public utility model in which health delivery systems meet the needs of the population.

Two points are important in assessing Aaron's article. First, markets—and especially consumers—are dynamic, and can rapidly alter his or any other scenarios. Managed care is a direct response to market pressures from purchasers of care—employers, government, and consumers. But market pressures may shift if consumers become increasingly concerned about quality and access. The new delivery system, including managed care organizations, will have to evolve and adapt to those concerns. Alternatively, such concerns could lead to great pressure for federal government intervention, specifically if states fail in their oversight responsibilities of the variety of new health care delivery systems.

Second, the political process should also be viewed as a dynamic variable. We should not passively accept a period of declining health coverage and rising discontent—and we certainly should not exacerbate the problems by taking legislative actions, such as severe cuts in Medicare and Medicaid spending, to speed the coverage loss and underutilization and cost

shift. Instead, we should reform these programs, limiting cost growth and updating their design for the next century without drastically reducing coverage and shifting costs to the private sector. Finally, we should enact bipartisan insurance reforms, such as those outlined by Senators Edward Kennedy and Nancy Kassebaum, that make group health insurance more accessible and affordable.

Donna E. Shalala, Secretary of Health and Human Services

Medicare Hospital Payments

■ Henry Aaron ("End of an Era: The New Debate over Health Care Financing," winter issue) predicts that powerful forces will ultimately expand the role of government in the financing and delivery of health care. Those forces include continued increases in the number of uninsured Americans, growth of preferred-provider organizations, and increasingly tight-fisted Medicare and Medicaid payments to hospitals and physicians.

In describing Medicare's payments to hospitals, Aaron characterizes the modest increases allowed since 1984 as inadequate to cover increases in actual cost. That characterization is potentially misleading.

The payment system established for Medicare in the early 1980s pays hospitals an amount equal to the actual average cost per Medicare patient in a base year (1981) plus carefully calculated adjustments for the severity of illness of each hospital's Medicare patient, subsequent increases in the cost of resources (staff and supplies), and higher-cost technology. Research indicates that payment rates have been set fairly and remain adequate to cover reasonable Medicare-related costs.

One element of a hospital's costs is not covered by Medi-

care payments—the cost of care to those without health insurance. That omission is intentional, however, dictated by the rules established in original enabling legislation. To cover a "fair portion" of the cost of care for the uninsured, Medicare would no longer be an insurance program for only the elderly and disabled.

Craig Coelen, The Urban Institute

Regulation and the "Competitiveness" Card

■ Denouncing ham-fisted regulations is easy enough. Pietro Nivola ("Having It All? Domestic Regulations and the Global Economy," winter issue) usefully takes the argument a step further by showing how regulatory irrationalism may in turn trigger protectionism (an implicit tax on imports) and corporate downsizing (because regulation may act as an implicit tax on labor). In effect, interest groups and businesses try to offload the costs of burdensome rules—leading, in turn, to more inefficiencies further down the line.

In one respect, however, I think Nivola missteps. Clumsy regulation is particularly damaging "amid the intensifying pressures of globalization," he suggests. "Just as strategic industrial policies of trading partners might contribute to their comparative commercial advantages (and disadvantage), so eccentricities in native legal cultures or regulatory styles may no longer be of little consequence in the global marketplace."

Certainly dumb regulation is costly. But unless regulation is especially costly to export-oriented businesses, the costs that it exacts through trade (that is, "globalization") are a mere subset of the costs it exacts

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No Free Lunch on Tax Reform

BY WILLIAM G. GALE

Fundamental tax reform—replacing the income tax with a new tax system—has attracted increased attention of late. The best known proposal is the flat tax. Pioneered by Robert Hall and Alvin Rabushka of the Hoover Institution, it has been championed most recently by House Majority Leader Richard Armey (R-TX) and Republican presidential hopeful Steve Forbes.

The flat tax would replace the individual and corporate income taxes with two new taxes. Businesses would pay taxes on total sales of goods and services less the sum of wages, pension contributions, materials costs, and capital investments. Households would be taxed on wages and pension benefits above a (generous) exemption amount adjusted for family size. No other income would be taxed, no other deductions allowed. The same single tax rate would apply for businesses and households.

Fundamental tax reform involves three separate questions. What should the tax base be? How should tax rates be structured? To what extent should social policy be managed through the tax system? The answers to each question run along a spectrum with the income tax at one end and the flat tax at the other.

The income tax taxes many forms of income, raises tax rates with income, and runs many social programs, including subsidies for mortgage interest, charitable contributions, low-income workers, and child care, through tax deductions and tax credits. The flat tax exempts from taxation all interest, dividends, and capital gains at the household level. It features a single rate (along with the zero rate that applies below the exemption level). And it removes all social policy (except the exemption itself) from the tax system.

In recent months, the flat tax has begun spawning variants, each of which move it back toward the income tax on one or more levels. Senator Arlen Specter's (R-PA) flat tax proposal would reinstate the mortgage and charity deductions. GOP presidential contender Patrick Buchanan would do the same and also tax at least some household capital income. The Kemp Commission recommended allowing deductions for payroll taxes and protecting existing assets in the transition to a new tax system. Jack Kemp himself spoke favorably of other deductions.

The reason for all the variants has to do with conflicts among the underlying principles of tax reform—fairness, simplicity, economic neutrality, visibility, and stability. Although there is widespread agreement (among advocates and opponents of the flat tax alike) on the virtue of each of these principles by itself, there is little agreement on how to trade the principles off against each other. And unfortunately (economics is not called the dismal science for nothing) such trading off is essential for any serious reform.

For example, the Treasury estimates that the "pure" flat tax would require a rate of 20.8 percent to raise the same revenue as the current system. Building on the Treasury figures, I calculate that retaining the deductions for mortgage interest and charitable contributions and adding a payroll tax deduction would raise that rate to 25 percent. Protecting existing assets in the transition to a new tax would raise it to 27–29 percent. Even extremely generous allowances for any economic growth resulting from fundamental tax reform reduce these rates by only 1–2 percentage points.

Rates that high would not represent tax cuts for most (maybe even many) Americans



and would be hard for many politicians to support. But if the rate were held at 20 percent, yearly deficits would rise \$100–150 billion or more.

These numbers do not mean that fundamental tax reform is a bad idea. Indeed, the flat tax is a simple and thoughtful response to many problems in today's tax system. But tax reform is not a free lunch: we can't get everything we might want.

There are two ways out of this quandary. One would start with the flat tax and make it less "pure." For example, exemptions could be held at about their current level rather than being radically raised. That would generate more revenue—and have the added virtue of keeping more people paying taxes and hence aware of the cost of the government. The lower exemptions could also be coupled with a two-tiered tax rate system (like today's 15 percent and 28 percent brackets). That could not only raise revenue, but also enhance the progressivity of the flat tax and still maintain many of its

benefits. It would also move the flat tax in the direction of the income tax on the tax rate spectrum and might allow for moving toward it on the social policy spectrum as well.

A less radical solution would be to start with the existing income tax system and simplify, streamlining the tax treatment of capital income, reducing the management of social policy through the tax code, and reducing and flattening the rates—in short, extending the principles developed in the Tax Reform Act of 1986.

Either way the result would be an improved system somewhere between the current tax system and the flat tax on each of the three issues in the debate. ■

William G. Gale is a senior fellow in the Brookings Economic Studies program. He is the author, with Henry J. Aaron, of A Citizen's Guide to Fundamental Tax Reform (Brookings, forthcoming).

MEX

The Slippery Road to Stability

Mexico, slowly emerging from its worst economic crisis in decades, is in the midst of a difficult political transition. America's neighbor to the south is struggling to break free of its authoritarian past to become a true democracy, complete with public accountability, clean and fair elections, and the rule of law. The path of political change, never expected to be smooth, became more unpredictable when, less than a month after President Ernesto Zedillo took office on December 1, 1994, a peso devaluation drove the economy into a sharp crisis.

Today political turbulence is one of the main threats to Mexico's financial stability and economic recovery. Likewise, a weak economy and volatile financial markets reduce the chances of a successful transition to democracy. A poor economic performance weakens Zedillo. And a weak government will be unlikely to be able to implement the changes necessary to produce genuine democracy and, especially, the rule of law. In addition, continued economic crisis might breed a political reaction that could jeopardize Mexico's fragile financial stability and the economic reforms under way to assure recovery.

Encouraging Signs

There are certainly reasons to be optimistic.

In early 1996 the economic picture brightened—a welcome relief after the bleak performance of 1995, when output contracted by an estimated 7 percent. After a surge in volatility last fall, the financial markets stabilized. The peso appreciated slightly, domestic interest rates and the open unemployment rate fell, and Mexico gained renewed access to private international capital markets. Most economic forecasts for 1996 chart a recovery, but not a brisk one. The official prediction is for output to grow 3 percent in 1996. Most predictions, though, are for 2 percent growth, practically stagnant in per capita terms.

On the political front, the government has shown its willingness to move forward with reform. President Zedillo has repeatedly stated, and taken initial steps on, his commitment to decentralizing power, fostering the separation between government and the long-ruling Institutional Revolutionary Party (PRI), completing ongoing electoral reforms, and strengthening the traditionally weak powers of Congress and the courts. Perhaps most important, Zedillo has indicated his intention to distance himself from the of-

IN 1990

Nora Lustig

ficial party and, most significantly, to break with the practice, followed by all past presidents—of hand-picking his successor. Zedillo's appointment of Antonio Lozano, a member of the opposition National Action Party (PAN), as attorney general is another sign of his apparent intent to govern Mexico by the rule of law. The arrest last year of Raul Salinas, brother of former president Carlos Salinas, in connection with the 1994 assassination of PRI Secretary-General Jose Francisco Ruiz Massieu was a powerful signal that the government was willing to break the unwritten rule of granting legal immunity to a former president and his family.

Political parties, civic organizations, and even the armed Zapatista rebels in Chiapas seem, judged by their actions, to favor a peaceful transition. Most local elections since early in 1995 have been free of violence or post-election rows, and their results, even when the PRI has been the loser, have been respected. The political crisis in Chiapas precipitated by a violent peasant uprising early in 1994 is being handled through peaceful negotiations. And the political parties and the government are in the process of negotiating the new terms that will rule the electoral processes, the relation-

ship between the government and its party, and the allocation of power among the executive, the legislative, and the judicial powers and the federal and state and local governments.

But despite these bright spots, political reform is still vulnerable and financial stability fragile.

Party Bosses Do Not Like Democracy

A primary threat to Mexico's democratic transition is the so-called old guard of the PRI, those who stand to lose if the political system becomes more open and competitive and if corruption is no longer tolerated. Members of the old guard, some now governors or leaders of blocs within the PRI, are well organized, have followers, and have access to financial resources.

They could create unmanageable conflicts within the party and exert considerable influence on its actions and programs. In exchange for their support, they could force even a well-intentioned Zedillo to look the other way while elections in some states continue to be fraudulent and while local governments continue their corrupt practices. The PRI governor of Tabasco, for example, though accused of spending

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The Remaking of an Economy (Brookings, 1993).

outrageously far beyond Mexico's legal campaign limit, has successfully resisted pressure from the federal government to resign. The incident may be the first of more to come. In that case, Mexico's political picture would be mixed, with democratic practices being fully implemented in some areas, geographic and functional, and the old pattern of patronage and authoritarianism remaining in others. But what pattern will dominate cannot be answered yet.

Ironically, if Zedillo carries out his promise to give state and local governments more powers and financial resources, allowing them to raise more revenues locally, he could also increase the resources and autonomy of the local bosses and *caciques*. Any moves toward decentralization must therefore be accompanied by democratization. There is a danger that decentralization will not help political reform if local governments cannot be held accountable.

The PRI in Crisis

Together with the PRI's difficulty in coming to terms with political reform, revelations surrounding the investigations of two 1994 political assassinations and the eco-

electorate ready to blame the crisis on the PRI government. Understandably, they will be strongly tempted to search for a platform both more congruent with the party's original ideology and more attractive to voters.

The party's morale is low. The assassination of PRI presidential candidate Luis Donaldo Colosio five months before the 1994 election was unnerving in itself, but the arrest of a presumed second gunman in March of last year gave support to the hypothesis that the assassination was the result of a plot. Though the second gunman has not been prosecuted and no one has been formally accused of orchestrating a plot, the public is convinced not only that there was a plot, but that the intellectual authors of the crime came from within the system itself.

Public rumors that former President Salinas or his foes were behind the plot inevitably create a tense atmosphere in the party since no one can be sure whom to trust or side with. The loss of prestige of former President Salinas following the peso devaluation of December 1994 and, in particular, the arrest of his brother Raul, first in connection with the assassina-

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omic crisis have touched off a crisis within the PRI itself. If the party's current crisis is not solved, the old guard is likely to be more successful in opposing reform.

One facet of the PRI crisis is financial. Long dependent on contributions from (or raised through) the government, the party is ill-prepared to find alternatives. It now faces the challenge of organizing to raise money. In this process, one particular danger is the temptation, on the part of some militants, to turn to "donations" from unsavory sources, such as narco-traffickers.

The party is also in the midst of an identity crisis. For many decades, the party, a product of the Mexican Revolution, endorsed a closed, largely state-led economy. The market-oriented reforms, particularly trade liberalization and privatization, introduced in the mid-1980s by President Miguel de la Madrid and his successor Carlos Salinas, were viewed with deep suspicion by most within the party. Although the prestige that Mexico won, particularly under Salinas, had attracted a number of PRI militants, the current economic crisis is raising renewed hostility. PRI candidates in next year's legislative elections know they will face an

tion of Ruis Massieu and later for holding huge bank accounts outside Mexico under a false name, has only made matters worse.

Under these circumstances, the PRI could be ripe for a takeover by disaffected elements who promise to restore confidence, resources, and leadership. Such a takeover could pose severe problems for Zedillo, who would somehow have to govern and carry on the difficult political transition without being able to count on party support. And negotiating to win that support could cost Zedillo dearly.

In any case, discontent within the PRI has important implications for the consolidation of democracy. The "arm's length" relationship with the party exercised by Zedillo during his first year in office is likely to backfire later. In the upcoming months, the challenge for Zedillo is to work *with* his party in a number of crucial areas: in defining a platform that is congruent for both sides, organizing the party for fundraising, and making the party's internal rules of candidate selection more "bottom-up" and transparent. A reorganized, modernized, and energized PRI is all but essential to a successful transition.

The Cleavage between Zedillo and Salinas

Once close allies in the struggle for economic liberalization, Zedillo and former president Salinas have been embroiled in an ugly fight. The tension between the two men reached its peak upon the arrest of Raul Salinas. Former president Salinas went on a hunger strike and demanded that Zedillo's government publicly acknowledge that he was responsible neither for the peso crisis nor for the assassination of Colosio, a rumor instigated by some of Mexico's leading columnists. Zedillo made no such public statement but sent a member of his cabinet, a former collaborator and friend of Salinas, as mediator. Following this episode the two men concluded some form of truce, whose terms for the moment remain unknown. At any rate, in March of last year Salinas left Mexico, and the issue seemed to have been put to rest.

Then last December, following the revelation of Raul Salinas's vast holdings in banks abroad, the former president wrote a long letter to the news media. In it he tried to disentangle himself from his brother's wrongdoings and accused Luis Echeverria, Mexico's president during the early 1970s, of orchestrating a

of political parties. Last December 12, one day after NBC news reported that the U.S. government was investigating Salinas for his association with narcotics trafficking and money laundering (a report denied by Washington shortly afterwards), a rumor circulated that Salinas had written a letter naming former and current government officials and businessmen involved in shady activities. Although the next evening Salinas sent a short written statement denying writing the letter and called for public support for Zedillo, the possibility that he would implicate members of the business and political elite sent shivers down the backs of many.

In such a climate, powerful businessmen and politicians must be tempted to take their wealth out of the country, perhaps even prepare for some form of exile. If such people were to withdraw their capital in panic, the peso, financial stability, and the prospects for economic recovery could crumble.

Political Assassinations and the Rule of Law

The attorney general's arrest of a second suspect in connection with the assassination of Colosio was deeply troubling. The arrest, which reversed the finding of two former special prosecutors that Colosio had been killed by a lone assassin, raised fears of a plot.

Yet another disturbing possibility hinted at by the continuing investigation is that members of the military could be implicated in the murder.

How will the Zedillo government deal with that possibility? Getting at the truth, assuming that it is possible, poses extremely serious challenges and excruciating dilemmas for the government. If indeed the Colosio assassination was the result of a plot, what might the perpetrators be willing, and able, to do to prevent the truth from coming out? What might they do to confuse, obstruct, distort, and even impede the investigation? Not surprisingly, today Mexicans are prone to see conspiracies almost everywhere.

Are any of these scenarios ominous enough to frighten the government away from the case? Will Zedillo be forced to abandon the rule of law in perhaps the most important case in Mexico's recent history? If he does, will it damage irreparably his government's credibility? Will it also undermine the standing of the PAN, the party of the investigating attorney general? Clearly, the investigation can have very important implications for Mexico's economic and political stability.

Unfortunately, the rule of law is to a certain extent hostage to Mexico's financial vulnerability. The nation's leaders can probably not afford to uncover the questionable or illegal activities committed by prominent members of the political and business elites. The attempt to change the rules of the game too swiftly and prosecute people for past wrongdoings could trigger a wave of capital outflows large enough to threaten the fragile recovery.

Chiapas, Political Discontent, and the Military

At the moment the results of the negotiations in Chiapas are encouraging. But the equilibrium is fragile. Other tensions—those between landless peasants and



plot against him. That Echeverria is actually engaged in such a plot is regarded by most observers as unlikely. Apparently the real purpose of the letter is to warn Echeverria, who publicly criticized Salinas last September, to keep quiet or risk the release of damaging information. The letter also implicitly contained a recurrent message from Salinas to Zedillo: "my enemies are your enemies." In other words, if Zedillo attacks Salinas or his family, he is strengthening a group within the system that opposes his own program of economic modernization. And Salinas is right in the sense that the more he is attacked, the more Zedillo's (and his) economic program and Zedillo himself are weakened and the old guard of the PRI strengthened.

Together with Mexico's poor economic performance and the crisis within the PRI, a rupture between Salinas and Zedillo would imperil Mexico's ongoing political transition and economic recovery. A cornered Salinas is in many respects a wildcard. As former president, Salinas probably has embarrassing, or worse, information about powerful members of the business community, the bureaucracy, and members

the propertied, between Catholics and Protestants, between Indians and whites—could derail the peace process. Indeed, even the land redistribution measures envisioned by negotiators as part of the solution to the Chiapas conflict will not ultimately address the main cause of the uprising, which is deprivation without hope. A lasting peace will require a major effort to develop both a capable labor force and jobs.

The Mexican military have followed the instructions of the government and appear to be committed to a peaceful resolution of the Chiapas crisis. But while the increased militarization of the zone of Zapatista influence guarantees the peace by deterring the Zapatistas from making a military move lest they be crushed, it also creates the conditions for bloodshed and violations of human rights. The military presence is also on the rise in other areas of the country where potentially similar movements, connected to the Zapatistas or not, exist. Again, the military presence can discourage other armed groups from violence. But under different circumstances, the military can be used to repress nonviolent protests, hurting innocent civilians in the process.

The possibility thus exists for Mexico to continue moving toward democracy in some areas, such as elections and the decentralization of power, but to remain repressive and authoritarian in others, particularly to be intolerant of civic, peasant, or labor organizations that reject government policies and pose a threat to financial stability.

Economic Performance and Popular Discontent

Despite the chaos produced by the financial crisis and despite important political faux pas, the government has been able to implement a tough adjustment program to counter the capital outflows that followed the peso devaluation and restore confidence in financial markets. Extensive lobbying, bargaining, and armtwisting also enabled Zedillo's government to win legislative approval of two highly controversial initiatives: increasing the value-added tax (last April) and reforming the social security system (in December).

Popular resistance to the adjustment program has been mild. There were fewer strikes in 1995 than in 1994, and neither labor nor peasant organizations have mobilized massive nationwide protests. Fear of joblessness probably saps workers' will to put up a fight. The debtors' movement known as "*El Barzon*" could turn into a powerful political force, but it seems to have been partially neutralized by a government program launched last summer to help debtors. For now, the most visible consequences of the economic crisis—the drastic fall in living standards, and the sharp increase in crime, suicides, and domestic violence—are more social than political.

But if economic recovery is slow, or, worse, if further financial instability postpones recovery, the political situation is likely to worsen. A poor economic performance will exacerbate popular discontent and weaken the government's ability to manage the country in this difficult period. The absence so far of a serious grassroots threat to the economic program or to social peace is no guarantee for the future. Urban riots

don't happen until they happen. New and more militant organizations are likely to appear on Mexico's political landscape.

In the upcoming weeks, both major opposition parties, the center-right PAN and the left-wing Party of the Democratic Revolution (PRD), will be selecting their new leaders. The choices they make—whether pro-reform negotiators or proponents of greater confrontation with the government—may signal what is to come.

The good news is that discontent may be expressed primarily at the ballot box. But if the economy worsens or improves too slowly, the rise of more populist economic policies pushed by legislators from opposition parties or by the PRI itself becomes a real possibility. Desperation can foster unwise but popular economic policies.

Although the current forecast is for the economy to grow between 2 percent and 3 percent in 1996, the performance of real wages looks much bleaker. Estimated to have fallen about 12 percent in 1995, they could fall another 14 percent in 1996—a two-year plunge of 26 percent. Some optimistic scenarios see a



fall of only 5 percent in 1996—still a cumulative drop close to 20 percent. Official predictions are that some 840,000 jobs will be added to the economy—about 400,000 short of the expected increase in the labor force.

Mexicans endured a worse fall in wages during the 1980s debt crisis. In 1983 alone, real wages plummeted about 25 percent. But the current crisis is exacerbated by large private-sector debt. High domestic interest rates combined with falling incomes for families and falling sales for businesses mean increasing defaults and bankruptcies. To the anguish of lower real wages and the fear, or the reality, of joblessness, families must add the threat of losing their homes, as many already have, because they cannot pay the mortgages. This is a new problem for Mexico, and the government's efforts to subsidize indebted families may not be enough, particularly if real interest rates stay high and real wages low throughout 1996.

In the medium term, maybe even as early as 1997, the Mexican economy, led by exports and foreign direct investment, should recover properly. But 1997 is ages away in political time, and even then there are no guar-

antees. The banking sector continues to be the Mexican economy's Achilles heel. Further bad economic news or more political turmoil could destabilize Mexico's peso and financial markets over and over again.

Clearly, the government's first priority should be economic recovery—but one that is sustainable. Unwise policy could lead to a run on the peso or to a balance of payments crisis. And, in fact, the degrees of freedom for an induced recovery are painfully slim. The government could perhaps relax fiscal and monetary policy, but only very little; it could privatize more state-owned industries and use the proceeds to reduce the debt burden. But the results would not be drastically different in terms of growth in the short run. Here is where the United States could be of great help.

What Can Washington Do?

Although the economic outlook is brighter and the quest for democracy has its own momentum, Mexico's financial vulnerability remains an important threat to political reform. It vastly complicates government efforts not only to prosecute prominent political leaders or the business and banking communi-

about NAFTA could drive some direct foreign investment (how much is hard to tell) away from Mexico. If NAFTA is subject to recurrent onsets of U.S. protectionism, Mexican exports would suffer. Both exports and foreign direct investment are key to a sustained economic recovery in Mexico, and the United States is Mexico's largest market and source of investment flows. But more important than the potential economic loss, the equivocations over NAFTA make President Zedillo look weak and undermine his leadership when precisely the opposite is essential.

Obviously, it would also help if the U. S. government would make available the remaining funds—close to \$10 billion—in the Mexican rescue package signed in February 1995. Releasing these funds in the form of guarantees, for example, could allow the Mexican government to borrow in the private capital markets on better terms. Giving the government such an option could enhance the stability of the peso and thereby reduce domestic interest rates further. Lower interest rates would offer relief to debtors, and hence the banking system, and allow lending to begin once again. With more credit available, economic growth



ties for past wrongdoing, but also to force local PRI officials to adhere to the new rules of electoral competition. Although the population at large would applaud such action, those under attack are likely to strike back. And although no one really knows how strong or effective these individuals or groups can be, the nation's financial volatility—easing now, but far from over—could make it extremely hard for the government to take the risk. Zedillo does not enjoy the full backing of the reform-minded. Many of his potential allies, while believing in his commitment to political reform, are concerned about his capacity to lead such a complex process. Economic improvements are likely to lessen the skepticism, strengthen Zedillo and make it easier for Mexico to undergo political reform.

The Clinton administration could help by clearing up questions about U.S. intentions to implement NAFTA. The president should offer reassurances, in both word and deed, that NAFTA is here to stay in full. The recent decision to postpone the licensing of Mexican trucks to operate in U.S. soil and the row over Mexican tomatoes are not good omens. Uncertainties

EVEN THE RULE OF LAW IS HOSTAGE TO MEXICO'S FINANCIAL VULNERABILITY. IF THE NATION'S LEADERS UNCOVER THE QUESTIONABLE PRACTICES OF POLITICAL AND BUSINESS ELITES, THEY RISK UNLEASHING A WAVE OF CAPITAL OUTFLOWS THAT COULD THREATEN THE FRAGILE RECOVERY.

could be higher than predicted even in the short run.

But in the current political climate and during a U.S. presidential election year, it is unlikely that the Clinton administration—under constant attack from critics in Congress who oppose lending to Mexico—will be ready to release more funds from the rescue package.

Washington should continue to support Zedillo, at least as long as he pushes Mexico to consolidate democracy. And the United States should treat Mexico as a partner—not as a defeated enemy—in managing the recurrent problems in the bilateral relationship—migration, narcotics trafficking, border pollution—as well as new ones arising from the implementation of NAFTA.

Unfortunately, electoral politics are pulling U.S. policy toward Mexico in the opposite direction. The results certainly do not help Mexico. But they do not help the United States either. A prosperous and stable Mexico is good for Mexicans first. But it is also good—in terms of higher exports, lower illegal immigration, fewer illicit activities, and an improved environment at the border—for the United States. ■

THE MARINES SHO

ADAPTING THE U.S.-JAPAN AL

The rape of a
12-year-old Japanese
girl by U.S. servicemen
stationed in Okinawa has
revealed a fragility in the

MIKE U.S.-Japan alliance that most
MOCHIZUKI policymakers in Tokyo and
AND Washington are reluctant to
MICHAEL recognize. The incident last
O'HANLON fall and the strong Japanese
reaction to it should be the
wake-up call that prompts
a rethinking of the U.S.-
Japanese security relationship
before even more serious
damage is done.



JLD COME HOME

ANCE TO A NEW SECURITY ERA



Pacific theater, including the 45,000 in Japan. The theater-wide total is down about a quarter from levels of the 1980s, partly because of the U.S. withdrawal from the Philippines, but the total based in Japan is down only 10 percent. In light of the Pentagon's decision, Japanese defense officials saw no need for significant changes in the Okinawan base configuration.

Policymakers in both countries have greatly underestimated both the discontent among Okinawans and the resolve of Governor Ota. Roughly 85,000 Okinawans took part in a protest against U.S. military bases last October, and more than half a million have signed petitions calling for changes in the bilateral security arrangement. Governor Ota has refused to sign an executive order to force landowners to lease their property for American military use.

Tokyo and Washington are trying to ease current tensions by signing side letters to the Status of Forces agreement to enable Japan to request that U.S. military defendants in murder, rape, and other serious cases be turned over to Japanese custody before a formal indictment. The two governments have also established a joint committee to review U.S. bases in Japan with an eye toward consolidating some of the Okinawa military facilities. These measures were designed to give then Prime Minister Tomiichi Murayama the political cover he needed to take Governor Ota to court to compel the renewal of the land leases.

But the compromise will not satisfy Okinawa and may even aggravate matters. The Clinton administration is publicly standing firm against substantial cuts in the number of soldiers deployed in Japan. But to maintain existing troop levels while responding meaningfully to Ota's call for fewer bases in Okinawa, the Pentagon would have to transfer some U.S. forces and facilities to Japan's main islands. And residents in most potential transfer sites are adamantly opposed.

If the Okinawa problem spreads to the rest of Japan, it could undermine national support for the alliance.

Okinawans have long felt unfairly burdened by the U.S. military presence in Japan.

Japan's smallest and poorest prefecture, Okinawa houses about three-fourths of the U.S. military facilities and two-thirds of the 45,000 American troops in Japan. Roughly 20,000 of the 29,000 troops on Okinawa are Marines. Artillery firings, low-flying aircraft, and other military exercises disrupt Okinawans' daily lives, as do the thousands of crimes committed by U.S. soldiers since 1972, when Okinawa was formally returned to Japan by the United States after 27 years of occupation.

Okinawa's governor, Masahide Ota, was elected in November 1990 on a reformist platform calling for a reduction in U.S. bases in Okinawa. Unlike many other Okinawan leaders pursuing that goal, however, Ota has sought to make adjustments *within* the alliance framework, not to abrogate the bilateral security treaty itself. But neither Tokyo nor Washington has heeded Ota's agenda.

When the Pentagon released its East Asia-Pacific strategic review in February of 1995, it committed the United States to maintain 100,000 troops in the Asian-

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Table 1. *Asahi Shimbun* Survey Conducted on October 29–30, 1995

Do you believe that the U.S.-Japan Security Treaty benefits Japan?	
Does benefit Japan	42%
Does not benefit Japan	28
Can't say either way	21
No or other response	9
Do you support or oppose maintaining the U.S.-Japan Security Treaty?	
Support the treaty	64%
Oppose the treaty	21
No or other response	15
Do you feel that the U.S. military bases in Japan should be kept at the current level or that they should be reduced?	
Keep at current level	20%
Reduce from current level	73
No or other response	7
What should be done about the U.S. bases in Okinawa?	
Keep at current level	7%
Gradually reduce them	76
Remove them immediately	14
No or other response	3

Recent public opinion polls show growing Japanese opposition to the U.S. military presence. For example, an *Asahi Shimbun* survey conducted late last October (see table 1) found that 76 percent of Japanese favor gradually reducing U.S. bases in Okinawa while 14 percent want their immediate removal. Only 7 percent support the status quo. According to the same poll, 58 percent oppose moving the U.S. bases in Okinawa to the main islands. Only 28 percent approve.

Especially worrisome is the drop in the number of Japanese who believe that the U.S.-Japan Security Treaty serves Japan's interest. Fifty-two percent thought so in April 1992, but only 42 percent felt that way last October. In that same interval, those feeling the treaty does *not* serve Japan's interests climbed from 21 percent to 28 percent. In the new political climate, politicians, even those who are traditionally strong American supporters, are increasingly reluctant to speak out on behalf of the alliance.

Before canceling his November trip to Japan because of the budget deadlock in Washington, President Clinton had planned to issue a joint declaration with Murayama in Tokyo on the alliance's critical role in shaping post-Cold War regional stability and global security. The statement was to have capped a nearly year-long review of the security relationship by Japanese and American defense officials. The Okinawa base controversy has certainly soured the atmosphere for such a declaration.

By the time Clinton visits Tokyo in April and meets with the new prime minister, Ryutaro Hashimoto, he will have to give more than lip service to the notion of restructuring the alliance in response to changes in the international environment. Rather than sticking stubbornly to the status quo, the president should take a hard look at the U.S. force structure in Japan. One thing he

would discover is that although Okinawa would still be a convenient place to keep some of their materiel and infrastructure, 20,000 U.S. Marines are no longer needed there.

Military Considerations

The Okinawa-based Marines are not central to the U.S.-Japanese security relationship or the U.S. role in Asia more generally. The Marines on Okinawa, for example, are poorly suited to make rapid deployments to places such as South Korea. The four U.S. amphibious ships homeported nearby in Sasebo, Japan, can carry only about 3,000 troops and associated equipment. Any more amphibious ships would have to come from the United States, defeating much of the benefit of having the Marines on Okinawa. Marines could also deploy from Okinawa on commercial ships or planes. But commercial ships would need to be rented and are slower to load and unload than amphibious vessels. And planes, with their limited capacities, are best suited to transporting personnel and modest amounts of specialized equipment such as munitions, attack helicopters, and Patriot missile-defense systems. Marine equipment afloat in Guam would be quickly available, but because of the ease and speed of airlifting troops, it could be manned by Marines from anywhere.

Thus, Marines in Okinawa would provide only about 5 percent of early-arriving U.S. forces. Most U.S. defenders of South Korea would consist of the 37,000 Army and Air Force troops already in Korea, roughly 20,000 Air Force and Navy troops in Japan, or reinforcements from the United States.

Moreover, the Korean military balance is constantly improving in favor of the South. Although continued U.S. vigilance and commitment there remain important, the peninsula is probably exerting too great an influence over U.S. strategic planning. It should not be the principal determinant of how the United States configures forces that are not even at the core of U.S. capability for that theater. Les Aspin made this point compellingly as chairman of the House Armed Services committee, arguing in his 1992 "options" paper that the United States could probably limit its main contribution during any future Korean war to airpower.

Similar arguments would apply to other scenarios of land combat in Asia, such as trouble between Japan and Russia. The Marine force on Okinawa is too small for major combat engagements and generally too immobile even for establishing tripwires or slowing down an adversary in the early phases of an attack.

Marines are simply not the right instrument of military force for addressing possible Chinese threats to the Spratly Islands, Taiwan, or the sea lanes of the South China Sea. Marines are configured to fight in coastal regions and on land. The Navy and Air Force are better able to provide the high-performance fighter aircraft, bombers, submarines, and surface warfare ships needed for the blue-water engagements that such scenarios involving China would likely entail.

Okinawa is a convenient base from which to conduct routine Marine patrols in the Western Pacific. Such patrols, typically involving about 2,000 troops on

three to five ships and conducted by so-called Marine Expeditionary Units, are maintained by Okinawan-based Marines. They conduct port calls and joint exercises with other countries' forces and provide a small rapid-response capability for crises. But other Marines begin and end routine overseas patrols from the continental United States, and the Marines now in Okinawa could too.

At worst, if all Marine units were based in the United States, there might be longer gaps between successive patrols overseas. The usual six-month rotations at sea would include a month in trans-Pacific voyages in addition to the five months on station, making a decline in efficiency of about 15 percent. But the Navy and Marine Corps have already learned how to deal with gaps between successive deployments. They cover for each other, send different types of ships such as destroyers for routine presence missions, or get temporary help from the Army or Air Force if land basing is available in a given theater (as it often is for occasional deployments, even when other countries do not want a permanent U.S. presence on their soil). They could do so even more.

Moreover, if one wishes to focus on military efficiency, there is much to be said against keeping forces on Okinawa. Technically, Marines are not stationed there, they are temporarily deployed. Thus, to keep 20,000 Marines on Okinawa, perhaps twice that number must be kept in the active-duty force structure—a luxury we may no longer want to afford.

In the event that it brought forces home from Okinawa, the Marine Corps would have other options as well. It might, for example, maintain a continuous presence in the Pacific by placing less priority on its standard patrol in the Mediterranean, where the United States enjoys strong allies and a much improved geopolitical backdrop thanks to developments in the Middle East and the breakup of the Soviet Union. U.S. military access to NATO, Israeli, and Egyptian land bases in the area, though not to be taken for granted, is generally attainable when the lives of embassy personnel or other Americans might be at risk—perhaps the most compelling reason to have Marines on forward deployment and instantly available. Thus, Army special forces or light infantry units might take over this traditional Marine responsibility in the Mediterranean and allow sea-based forces to focus more attention on those regions where reliable land bases are not so plentiful.

As another option, the Marine Corps could borrow an idea from William Morgan, of the Center for Naval Analyses, and rotate crews by flying them from the United States to meet ships overseas. Doing so would obviate the need for long ocean voyages to and from the United States except when major ship repairs were needed. Indeed, Okinawa might be a rendezvous point where crews began and ended their shifts. Basing the 3rd Marine division at home would cost Washington more in annual operations and maintenance—about \$1 billion as against half a billion dollars a year basing most of it in Japan. But those dollars would be spent in the United States, stimulating the economy and mitigating the pain of the ongoing military base clo-

Table 2. Distance from Possible Marine Corps Bases to Operating Areas (in kilometers)

Base	Persian Gulf	Pusan, Korea	Singapore	Manila, Philippines	Colombo, Sri Lanka
Okinawa	13,200	1,000	3,800	1,800	6,700
Pusan, South Korea	13,900	----	4,500	2,600	7,600
Darwin, Australia	12,600	5,500	3,200	3,400	6,100
Honolulu	20,300	7,500	10,900	8,800	13,800
San Francisco	23,600	9,000	14,300	11,500	17,200

Note: A typical amphibious vessel can move at 35 kilometers per hour or about 850 kilometers per day.

Source: Defense Mapping Agency, *Distances Between Ports* (Washington, D.C., 1976).

sure process. Moreover, as suggested above, moving the Marines home might make it possible to reduce the overall size of the Corps if U.S. warfighting strategy changes, as many consider likely some time in the next year or two. In that event, there could even be net savings associated with the move.

Perceptions and Misperceptions

Moving the American Marines away from Okinawa, either to Hawaii or to the continental United States, would go far to defuse the current discontent in Okinawa and dramatically reduce the likelihood that it would recur there or elsewhere in Japan in the future.

Any perception abroad that the United States was disengaging from Asia would be countered not only by continued Marine patrols in the Western Pacific, but by the enduring presence of Army, Navy, and Air Force personnel in Japan and Korea. Japan would retain an important, yet less politically taxing, role in the U.S. Marine presence in the Pacific.

If the Marine pullout from Okinawa alarms any of America's friends and allies in the Asia-Pacific, Washington should explore with them yet another possibility—deploying some Marine units to places like Darwin, Australia, and Pusan, Korea. Both, like Okinawa, are close to strategically important areas in Northeast and Southeast Asia (see table 2).

It is even possible that some Japanese may grow anxious at the prospect of the departure of U.S. ground forces. This reaction, more a matter of psychology than of military preparedness, may actually be a positive development, for it might push Japan toward a more realistic view of international security. A new Japan might then emerge—a country that defines its national interests in more than narrow economic terms and that is willing to assume the political and military risks necessary to preserve peace and security. Such an evolution would strengthen, rather than erode, what is still the most important bilateral security relationship in the world. ■

Broken Bottles

Alcohol, Disorder,
and Crime

Over the past quarter-century, Americans have spent billions of dollars to wage a war on drugs as part of a broader effort to fight crime and community breakdown, especially in the inner city. The particular focus on illicit drugs, however, has kept the spotlight off a more familiar, yet perhaps more dangerous, psychoactive drug—alcohol. The tendency to leave liquor out of the nation's crime equation is understandable. After all, adult liquor sales are legal, most Americans drink in moderation, and, whatever the social costs of alcohol abuse, no one who wishes to be taken seriously is about to call for a

return to prohibition. Policymakers concerned about the health of the nation's inner cities, however, must not ignore the links between alcohol and crime. Although the relationships are complex, the high concentration of liquor stores in the inner cities, the ready availability of beer and hard liquor, and the high incidence of alcohol abuse are deeply implicated in the troubled homes, disorderly neighborhoods, and dangerous streets there.

This insight comes as no news to the struggling, law-abiding residents who live in these neighborhoods. They beg local police and other public authorities to "do something" about the corner-to-corner proliferation of liquor outlets. They spray paint over liquor billboards. They try without success to get zoning laws changed to make it as tough to open retail liquor stores in their neighborhoods as it generally is to open them in rich, white, suburban neighborhoods.

It is time for the rest of us, policymakers and citizens alike, to pay attention.

A Multiplier of Crime

Although scientific research on alcohol-related crime and other social ills has been crowded out by studies of the social costs and consequences of drug abuse, researchers are beginning to get a handle on the epidemiology of alcohol-related crime. Perhaps the single best summary of the evidence is this, by Jeffrey Fagan: "Alcohol use has been associated with assaultive and sex-related crimes, serious youth crime, family violence toward both spouses and children, being both a homicide victim and a perpetrator, and persistent aggression as an adult. Alcohol 'problems' occur disproportionately among both juveniles and adults who report violent behaviors."

Most crime, of course, is not related to drinking, and most drinking never results in crime. But some people are far more prone to crime and violence when they are drinking or drunk than when they are clean and sober. Analysts are careful to stress that "conceptions of how drinking affects social behavior are . . . shaped more by powerful cultural, economic, and political forces than by scientific evidence regarding the direct effects of alcohol." But exactly the same sorts of cautions apply to the links between drug abuse and crime. The evidence that "drug abuse causes crime" is of the same kind and quality as the evidence that "alcohol abuse causes crime"—namely, plentiful but inferential, generally persuasive but not scientifically precise.

What the evidence suggests is that alcohol, like drugs, acts as a multiplier of crime. Aggressive behavior or criminality often occurs before involvement with drugs or alcohol, but the onset of use increases aggressive or criminal behavior. If anything, alcohol abuse probably drives crime and other social problems more than drug abuse does, simply because the use of alcohol is so widespread.

Liquor, Disorder, and Crime

Neighborhood disorder takes many forms—public drinking, prostitution, catcalling, aggressive panhandling, rowdy teenagers, battling spouses, graffiti, vandalism, abandoned buildings, trash-filled lots, alleys strewn with bottles and garbage. But no social disorder is at once so disruptive in its own right and so conducive of other disorders and crime as public drinking.

In a classic 1990 study of community breakdown in American cities by William Skogan, public drinking was ranked first among the disorders identified by residents across 40 neighborhoods.

The statistics are striking. Sixty percent of convicted homicide offenders drank just before committing the offense. Sixty-three percent of adults jailed for homicide had been drinking before the offense. Sixty percent of prison inmates drank heavily just before committing the violent crime for which they were incarcerated. The relationship between poverty and homicide is stronger in neighborhoods with higher rates of alcohol consumption than in those with average or below-average rates. Numerous studies report a strong association between sexual violence and alcohol, finding that "anywhere between 30 and 90 percent of convicted rapists are drunk at the time of offense." Juveniles, especially young men, who drink to the point of drunkenness are more likely than those who do not drink to get into fights, get arrested, commit violent crimes, and recidivate later in life. Alcohol-dependent male factory workers are more than three times as likely to physically abuse their wives than are otherwise comparable, non-alcohol-dependent counterparts.

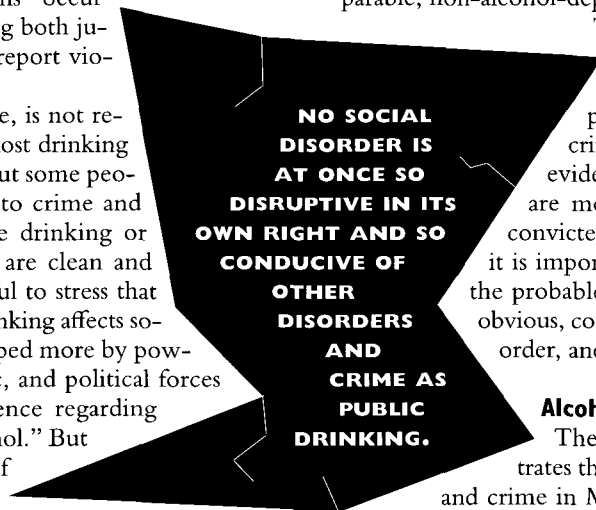
The high incidence of drinking among convicted criminals does not necessarily prove that drinking stimulates crime; it may be nearer to being evidence that criminals who drink are more likely to get caught and convicted than those who do not. But it is important not to discount or deny the probable, and in some cases patently obvious, connections between liquor, disorder, and crime.

Alcohol in the Inner City

The map shown in figure 1 illustrates the relationship between liquor and crime in Milwaukee in 1993. The map categorizes each city tract according to its crime rate; the darker the shading, the higher the crime rate. Each dot represents a liquor outlet. If one knew nothing about the city or what the shaded areas or dots represent and simply drew circles around the places where the dots are clustered, Milwaukee's poor, minority, high-crime, inner-city neighborhoods would be enclosed in those circles. And the same pattern is true for other inner-city communities all across the country.

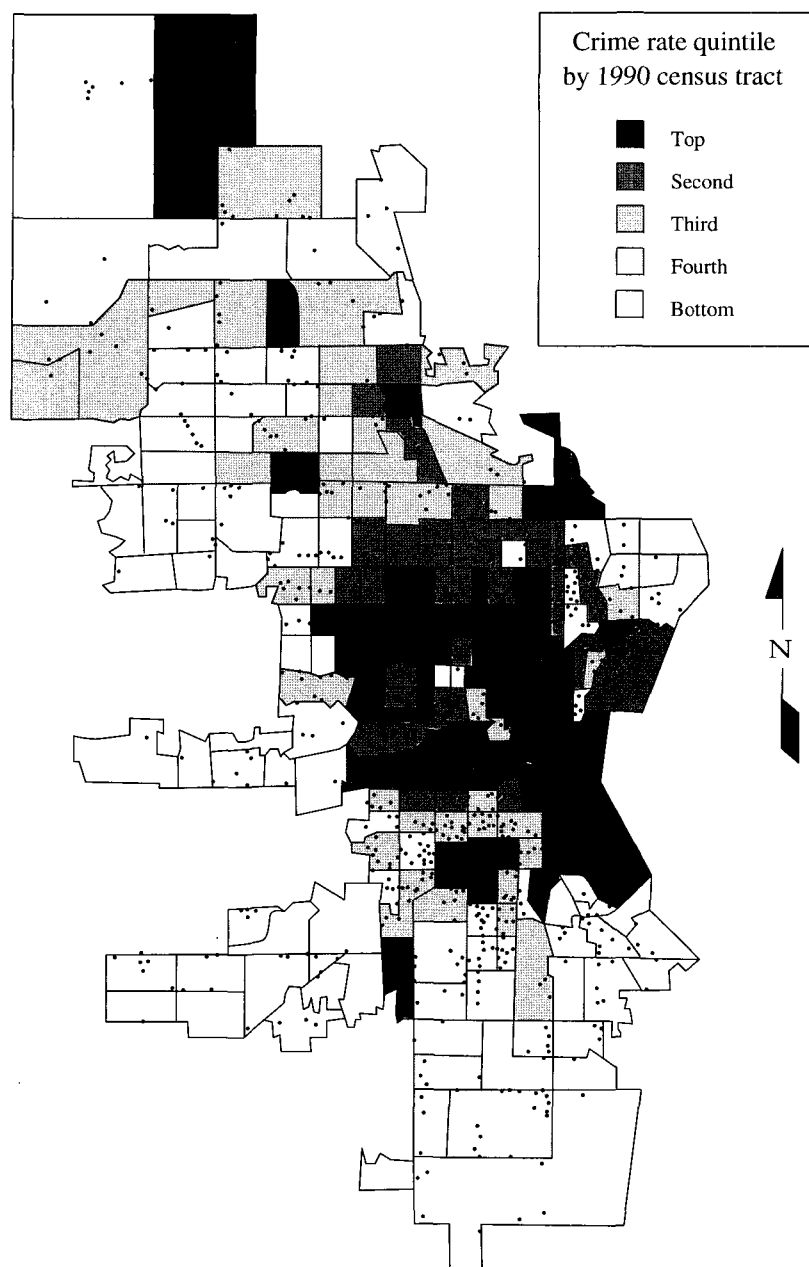
Numerous first-rate studies have found close links between the geographic density of alcohol outlets and consumption (and alcohol problem) rates. Without leaping to the further conclusion that if inner-city neighborhoods had fewer liquor outlets and less alcohol consumption, they would also have less crime, policymakers who care about reducing community breakdown and crime in the inner city should nevertheless seriously consider restricting alcohol availability and reducing the density of liquor stores.

The practical question is how best to do so. The main finding of the scientific research literature is that more strongly enforcing liquor law regulations can



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Table 1. Milwaukee Crime Rates and Liquor License Locations, 1993



reduce alcohol availability and consumption, as well as alcohol-related problems, including violent crime, among at-risk youth and adults.

Most states do not have strong liquor-law regulations and procedures. Even states that have them on the books tend to underfund the agencies responsible for enforcing them. Naturally, anemic funding often leads to inadequate enforcement, which opens up the possibility of socially harmful concentrations of liquor outlets and other regulatory failures that can lead to a hornet's nest of alcohol-related social problems.

Developing and enforcing rigorous liquor laws and regulations that might cut crime and alcohol-related

problems in poor, minority, high-crime inner-city neighborhoods has not been a high priority for most states. To put it bluntly, America's liquor-control regime is structured without any apparent regard for the connection between alcohol availability, consumption, crime, and other social problems—and is calculated to give the states almost zero capacity to regulate and directly enforce liquor laws. A study of ABC offices and investigators in California, for example, found that investigators were "less concerned with public health and welfare than with the rights of applicants." The study concluded that selling alcohol in California "is treated more as a right than a privilege."

In their new book, *Alcohol and Homicide*, R. N. Nash and L. A. Rebhun observe, rightly, that the high concentration of liquor outlets in inner-city neighborhoods reflects "the relative power of alcohol producers and wholesalers who supply liquor outlets, banks who loan money to store owners, and state regulators whose activities are more oriented toward the interests of alcohol industry lobbying groups than the regulation of that industry and the relative powerlessness of the poor and unemployed individuals and groups who live in greater concentration in these areas of high outlet density."

Broken Bottles

Middle-class Americans would not tolerate for one second laws that permitted an inner-city level concentration of liquor stores in and around the places where they and their loved ones live, work, shop, go to school, or play. It makes no sense to insist that it is all merely a matter of free markets, as if liquor stores simply go where the people want what they sell and sell to whomever they want. Nor can one hide behind a fog of empirical uncertainties about the connections between liquor, disorder, and crime. In the end, academic statistical exercises are no substitute for live ethnographic realities. A 1993 feature in *U.S. News and World Report* reported on that reality from the perspective of a typical inner-city child named John. "To John, Tom's Liquor is a short walk from his house, school and the storefront church in the same shopping strip. A slew of transactions take John to Tom's. He tags along with his mom when she goes to cash her welfare checks free of charge. With no supermarket nearby, John goes to Tom's when he wants a candy bar. Even when his mother takes him to the adjoining neighborhoods, John rarely sees a bank or supermarket. Many neighborhood traits convey disorder, but unchecked public drinking is a particularly potent affirmation that 'no one cares.' That is the message John gains by observing Tom's Liquor, where winos and crack addicts congregate at night in the parking lot."

Some years ago James Q. Wilson and George L. Kelling offered a by-now almost universally accepted "broken windows" thesis—when a broken window in a building goes unfixed, soon all its windows are broken. The broken window is an invitation to incivility, disorder, and crime. "Where disorder problems are frequent and no one takes responsibility for unruly behavior in public places, the sense of 'territoriality' among residents shrinks to include only their

own households; meanwhile, untended property is fair game for plunder or destruction. . . [and] a concentration of supposedly 'victimless' disorders can soon floor an area with serious, victimizing crime." But broken bottles have an even worse effect on community order and safety than broken windows. The fact that government itself licenses the entire mess by letting the liquor stores proliferate and the broken bottles pile up so high in poor, inner-city neighborhoods is the single most compelling symbol that nobody cares, the ultimate invitation to disorder and crime.

Preserving Social Capital

States and cities should begin immediately to experiment with policies aimed at cutting crime by curbing alcohol availability and consumption. The place to start is in high-crime neighborhoods where the density of liquor outlets exceeds citywide averages. The theory behind this experiment should be guided by the large and methodologically sophisticated body of research that documents that in inner-city neighborhoods, the relationship between poverty on the one side and crime and disorder on the other is mediated by community norms and the extent of citizens' attachments to traditional institutions like home, school, and church.

As a rule, the stronger are community norms and traditional institutional attachments, the weaker the link between poverty and crime and the lower the chances that poor children will become deviant, delinquent, or predatory. Studies have shown that religious affiliation fosters less drinking. Indeed, one major study finds that even after controlling for all relevant individual characteristics such as race, gender, education, parental education, family structure, and religious involvement, young people whose neighbors attend church are more likely to find a job, less likely to use drugs, and less likely to be involved in criminal activities whether or not they themselves attend church or have other attachments to traditional institutions.

But in poor neighborhoods where alcohol is readily available and liquor outlets dot every intersection, informal and indirect social controls on deviant, delinquent, and criminal behavior are diluted. Where broken bottles fill the gutters, social capital goes down the drain. Whether or not they themselves drink to excess, hang out at bars, or engage directly in related behaviors, it is probable that poor, inner-city youths who grow up in places where drinking is common and liquor outlets are everywhere are more likely than otherwise comparable youths to have diminished life prospects that include joblessness, substance abuse, and serious trouble with the law.

At least three specific policy experiments should be considered as means of deepening our understanding of the alcohol-disorder-crime nexus. First, conduct systematic empirical research on alcohol availability and crime. Develop a rich database that includes detailed information about the precise degrees of spatial overlap between liquor outlets, the incidence of communal disorders, rates of criminal activity, and the frequency of police response. Building such data sets would require the concerted efforts and cooperation of many different state and local agencies, including police departments and social service agencies.

Second, impose stricter zoning ordinances for liquor stores. New zoning laws would increase the distances between liquor stores, reduce the number of bars and liquor stores in the city, and ban the sale of malt liquor to go.

Third, limit alcoholic beverage advertising. Few systematic, scientifically rigorous studies have documented the relationship between alcohol ads and the incidence of excessive drinking, disorder, crime, and related social problems. But the alcohol industry seems to believe that these ads make a positive difference to their sales. Indeed, the industry seems perfectly well aware of the relationship between alcohol, disorder, and crime—and in some infamous cases has been quick to exploit it for commercial gain.

In the early 1990s, for example, one of the billboarded spokesmen for St. Ides malt liquor was Ice Cube, a "gangsta rapper" whose hits feature lyrics such as "Pay respect to the black fist or we'll burn your store right down to a crisp."

Religious leaders in black communities often paint over offensive billboards. City officials should follow their lead by enforcing zoning limitations on billboard alcohol advertising, banning such ads from the horizons of schools, churches, and public housing centers.

One policy experiment that should be avoided at all costs is lowering the legal drinking age. The drinking-disorder-crime nexus seems strongly age-specific. Most violent crime is committed by young males. Drinking in males normally begins around adolescence and rises until the late teens or mid-twenties. Research suggests that the relationship between drinking and serious crime is strongest before young men reach age 31.

In a word, states should refuse to enact any measure that would increase alcohol consumption and particularly consumption among young people. Unless one simply refuses to accept the overwhelming weight of the evidence on the relationship between drinking, disorder, and crime, one must believe that reducing the minimum drinking age or any other measure that would increase, rather than further limit, the availability of alcohol would have socially undesirable, even disastrous, consequences—most especially in America's inner-city neighborhoods. ■

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Drug Legalization

TIME FOR A REAL DEBATE

PAUL B. STARES

Whether Bill Clinton “inhaled” when trying marijuana as a college student was about the closest the last presidential campaign came to addressing the drug issue. The present one, however, could be very different. For the fourth straight year, a federally supported nationwide survey of American secondary school students by the University of Michigan has indicated increased drug use. After a decade or more in which drug use had been falling, the Republicans will assuredly blame the bad news on President Clinton and assail him for failing to carry on the Bush and Reagan administrations’ high-profile stand against drugs. How big this issue becomes is less certain, but if the worrisome trend in drug use among teens continues, public debate about how best to respond to the drug problem will clearly not end with the election. Indeed, concern is already mounting that the large wave of teenagers—the group most at risk of taking drugs—that will crest around the turn of the century will be accompanied by a new surge in drug use.

As in the past, some observers will doubtless see the solution in much tougher penalties to deter both suppliers and consumers of illicit psychoactive substances. Others will argue that the answer lies not in more law enforcement and stiffer sanctions, but in

less. Specifically, they will maintain that the edifice of domestic laws and international conventions that collectively prohibit the production, sale, and consumption of a large array of drugs for anything other than medical or scientific purposes has proven physically harmful, socially divisive, prohibitively expensive, and ultimately counterproductive in generating the very incentives that perpetuate a violent black market for illicit drugs. They will conclude, moreover, that the only logical step for the United States to take is to “legalize” drugs—in essence repeal and disband the current drug laws and enforcement mechanisms in much the same way America abandoned its brief experiment with alcohol prohibition in the 1920s.

Although the legalization alternative typically surfaces when the public’s anxiety about drugs and despair over existing policies are at their highest, it never seems to slip off the media radar screen for long. Periodic incidents—such as the heroin-induced death of a young, affluent New York City couple in 1995 or the 1993 remark by then Surgeon General Jocelyn Elders that legalization might be beneficial and should be studied—ensure this. The prominence of many of those who have at various times made the case for legalization—such as William F. Buckley, Jr., Milton Friedman, and George Shultz—also helps. But each

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time the issue of legalization arises, the same arguments for and against are dusted off and trotted out, leaving us with no clearer understanding of what it might entail and what the effect might be.

As will become clear, drug legalization is not a public policy option that lends itself to simplistic or superficial debate. It requires dissection and scrutiny of an order that has been remarkably absent despite the attention it perennially receives. Beyond discussion of some very generally defined proposals, there has been no detailed assessment of the operational meaning of legalization. There is not even a commonly accepted lexicon of terms to allow an intellectually rigorous exchange to take place. Legalization, as a consequence, has come to mean different things to different people. Some, for example, use legalization interchangeably with “decriminalization,” which usually refers to removing criminal sanctions for possessing small quantities of drugs for personal use. Others equate legalization, at least implicitly, with complete deregulation, failing in the process to acknowledge the extent to which currently legally available drugs are subject to stringent controls.

Unfortunately, the U.S. government—including the Clinton administration—has done little to improve the debate. Although it has consistently rejected any retreat from prohibition, its stance has evidently not been based on in-depth investigation of the potential costs and benefits. The belief that legalization would lead to an instant and dramatic increase in drug use is considered to be so self-evident as to warrant no further study. But if this is indeed the likely conclusion of any study, what is there to fear aside from criticism that relatively small amounts of taxpayer money had been wasted in demonstrating what everyone had believed at the outset? Wouldn’t such an outcome in any case help justify the continuation of existing policies and convincingly silence those—admittedly never more than a small minority—calling for legalization?

A real debate that acknowledges the unavoidable complexities and uncertainties surrounding the notion of drug legalization is long overdue. Not only would it dissuade people from making the kinds of casual if not flip-pant assertions—both for and against—that have permeated previous debates about legalization, but it could also stimulate a larger and equally critical assessment of current U.S. drug control programs and priorities.

First Ask the Right Questions

Many arguments appear to make legalization a compelling alternative to today’s prohibitionist policies. Besides undermining the black-market incentives to produce and sell drugs, legalization could remove or at least significantly reduce the very problems that cause the greatest public concern: the crime, corruption, and violence that attend the operation of illicit drug markets. It would presumably also diminish the damage caused by the absence of quality controls on illicit drugs and slow the spread of infectious diseases due to needle sharing and other unhygienic practices. Furthermore, governments could abandon the costly and largely futile effort to suppress the supply of illicit drugs and jail drug offenders, spending the money thus saved

to educate people not to take drugs and treat those who become addicted.

However, what is typically portrayed as a fairly straightforward process of lifting prohibitionist controls to reap these putative benefits would in reality entail addressing an extremely complex set of regulatory issues. As with most if not all privately and publicly provided goods, the key regulatory questions concern the nature of the legally available drugs, the terms of their supply, and the terms of their consumption (see page 21).

What becomes immediately apparent from even a casual review of these questions—and the list presented here is by no means exhaustive—is that there is an enormous range of regulatory permutations for each drug. Until all the principal alternatives are clearly laid out in reasonable detail, however, the potential costs and benefits of each cannot begin to be responsibly assessed. This fundamental point can be illustrated with respect to the two central questions most likely to sway public opinion. What would happen to drug consumption under more permissive regulatory regimes? And what would happen to crime?

Relaxing the availability of psychoactive substances not already commercially available, opponents typically argue, would lead to an immediate and substantial rise in consumption. To support their claim, they point to the prevalence of opium, heroin, and cocaine addiction in various countries before international controls took effect, the rise in alcohol consumption after the Volstead Act was repealed in the United States, and studies showing higher rates of abuse among medical professionals with greater access to prescription drugs. Without explaining the basis of their calculations, some have predicted dramatic increases in the number of people taking drugs and becoming addicted. These increases would translate into considerable direct and indirect costs to society, including higher public health spending as a result of drug overdoses, fetal deformities, and other drug-related misadventures such as auto accidents; loss of productivity due to worker absenteeism and on-the-job accidents; and more drug-induced violence, child abuse, and other crimes, to say nothing about educational impairment.

Advocates of legalization concede that consumption would probably rise, but counter that it is not axiomatic that the increase would be very large or last very long, especially if legalization were paired with appropriate public education programs. They too cite historical evidence to bolster their claims, noting that consumption of opium, heroin, and cocaine had already begun falling before prohibition took effect, that alcohol consumption did not rise suddenly after prohibition was lifted, and that decriminalization of cannabis use in 11 U.S. states in the 1970s did not precipitate a dramatic rise in its consumption. Some also point to the legal sale of cannabis products through regulated outlets in the Netherlands, which also does not seem to have significantly boosted use by Dutch nationals. Public opinion polls showing that most Americans would not rush off to try hitherto forbidden drugs that suddenly became available are likewise used to buttress the pro-legalization case.

Neither side's arguments are particularly reassuring. The historical evidence is ambiguous at best, even assuming that the experience of one era is relevant to another. Extrapolating the results of policy steps in one country to another with different sociocultural values runs into the same problem. Similarly, within the United States the effect of decriminalization at the state level must be viewed within the general context of continued federal prohibition. And opinion polls are known to be unreliable.

More to the point, until the nature of the putative regulatory regime is specified, such discussions are futile. It would be surprising, for example, if consumption of the legalized drugs did not increase if they were to become commercially available the way that alcohol and tobacco products are today, complete with sophisticated packaging, marketing, and advertising. But more restrictive regimes might see quite different outcomes. In any case, the risk of higher drug consumption might be acceptable if legalization could reduce dramatically if not remove entirely the crime associated with the black market for illicit drugs while also making some forms of drug use safer. Here again, there are disputed claims.

Opponents of more permissive regimes doubt that black market activity and its associated problems would disappear or even fall very much. But, as before, addressing this question requires knowing the specifics of the regulatory regime, especially the terms of supply. If drugs are sold openly on a commercial basis and prices are close to production and distribution costs, opportunities for illicit undercutting would appear to be rather small. Under a more restrictive regime, such as government-controlled outlets or medical prescription schemes, illicit sources of supply would be more likely to remain or evolve to satisfy the legally unfulfilled demand. In short, the desire to control access to stem consumption has to be balanced against the black market opportunities that would arise. Schemes that risk a continuing black market require more questions—about the new black market's operation over time, whether it is likely to be more benign than existing ones, and more broadly whether the trade-off with other benefits still makes the effort worthwhile.

The most obvious case is regulating access to drugs by adolescents and young adults. Under any regime, it is hard to imagine that drugs that are now prohibited would become more readily available than alcohol and tobacco are today. Would a black market in drugs for teenagers emerge, or would the regulatory regime be as leaky as the present one for alcohol and tobacco? A “yes” answer to either question would lessen the attractiveness of legalization.

What about the International Repercussions?

Not surprisingly, the wider international ramifications of drug legalization have also gone largely unremarked. Here too a long set of questions remains to be addressed. Given the longstanding U.S. role as the principal sponsor of international drug control measures, how would a decision to move toward legalizing drugs affect other countries? What would become

of the extensive regime of multilateral conventions and bilateral agreements? Would every nation have to conform to a new set of rules? If not, what would happen? Would more permissive countries be suddenly swamped by drugs and drug consumers, or would traffickers focus on the countries where tighter restrictions kept profits higher? This is not an abstract question. The Netherlands' liberal drug policy has attracted an influx of “drug tourists” from neighboring countries, as did the city of Zurich's following the now abandoned experiment allowing an open drug market to operate in what became known as “Needle Park.” And while it is conceivable that affluent countries could soften the worst consequences of drug legalization through extensive public prevention and drug treatment programs, what about poorer countries?

Finally, what would happen to the principal suppliers of illicit drugs if restrictions on the commercial sale of these drugs were lifted in some or all of the main markets? Would the trafficking organizations adapt and become legal businesses or turn to other illicit enterprises? What would happen to the source countries? Would they benefit or would new producers and manufacturers suddenly spring up elsewhere? Such questions have not even been posed in a systematic way, let alone seriously studied.

Irreducible Uncertainties

Although greater precision in defining more permissive regulatory regimes is critical to evaluating their potential costs and benefits, it will not resolve the uncertainties that exist. Only implementation will do that. Because small-scale experimentation (assuming a particular locality's consent to be a guinea pig) would inevitably invite complaints that the results were biased or inconclusive, implementation would presumably have to be widespread, even global, in nature.

Yet jettisoning nearly a century of prohibition when the putative benefits remain so uncertain and the potential costs are so high would require a herculean leap of faith. Only an extremely severe and widespread deterioration of the current drug situation, nationally and internationally, is likely to produce the consensus—again, nationally and internationally—that could impel such a leap. Even then the legislative challenge would be stupendous. The debate over how to set the conditions for controlling access to each of a dozen popular drugs could consume the legislatures of the major industrial countries for years.

None of this should deter further analysis of drug legalization. In particular, a rigorous assessment of a range of hypothetical regulatory regimes according to a common set of variables would clarify their potential costs, benefits, and trade-offs. Besides instilling much-needed rigor into any further discussion of the legalization alternative, such analysis could encourage the same level of scrutiny of current drug control programs and policies. With the situation apparently deteriorating in the United States as well as abroad, there is no better time for a fundamental reassessment of whether our existing responses to this problem are sufficient to meet the likely challenges ahead. ■

SOME KEY REGULATORY QUESTIONS

THE NATURE OF THE PRODUCT. Which formerly illicit substances can be legally acquired and consumed? All, including heroin and cocaine, or just some, such as cannabis? In what form would the permitted substances be made publicly available?

Would the purity or potency be controlled? Who would devise such regulations, and how would they be reviewed and revised if necessary?

THE TERMS OF SUPPLY. Who would produce the permitted substances? Would production be under government or private control? If the latter, what kind of certification, licensing, product reliability, safety, and security arrangements would take effect? Would restrictions be applied to the packaging of the product as well as any self-administration devices?

How would consumers gain access to the drugs—through privately owned businesses, government-controlled shops, or mail-order services? What regulations would affect the location and

operating hours of these outlets? How would they be monitored? What regulations would apply to the personnel selling, dispensing, and safeguarding the drugs? Would public advertising be permitted? If not, would this contravene constitutional free speech provisions? If advertising were allowed, what regulations would apply? Could every media outlet be used? Would the advertising have to conform to certain standards? Likewise, at the places selling or otherwise dispensing the drugs, would restrictions be placed on their location and display? Would product liability and safety information be made available? To whom, how, when, and where? How would the transactions take place: using money, special credits, ration cards, medical prescriptions, or some other means? Would transactions be taxed, registered, and otherwise reported? What would happen to the tax revenues as well as the reported information? What penalties would be set for violating restrictions on the supply of permitted and unpermitted substances?

THE TERMS OF CONSUMPTION. Would restrictions be placed on who would have access to the permitted drugs, or on where permitted substances could be consumed (in special facilities or private property) as well as where they could not (schools, parks, public transportation)? Would pregnant women be given access; if not, how would this be regulated? Would special identification procedures have to be followed to gain access?

Would consent from a parent, guardian, or health professional be required? Would limits be set on the age and occupation of those acquiring drugs?

Would restrictions apply to when certain drugs could be consumed? Would restrictions be placed on how the permitted drugs could be consumed? Would information be supplied to help consumers use the drugs safely and tell them what to do in case of accident or adverse reactions? Would limits apply to the amount of drugs that could be consumed at any one time and during a specified period? Would restrictions apply to the amount that could be carried or in one's possession at any time? Would restrictions apply to certain activities—occupational and recreational—that could not be carried out while under the influence of the drugs? Would consumers who suffer adverse reactions have legal recourse? What about people injured and otherwise harmed by others under the influence? In general, what would be the penalties for violating any of the consumer restrictions? Would they be harsher or less severe than existing sanctions?

A Winning Hand?

The Uncertain Future of Environmental Justice

CHRISTOPHER H.
FOREMAN, JR.



During its halcyon legislative days in the 1970s, the public face of environmentalism was overwhelmingly white and middle class. Minority politicians provided reliable votes for environmental statutes but were often acutely suspicious of mainstream environmentalism, believing the urban poor a more endangered species than spotted owls. Whitney Young, executive director of the National Urban League, bluntly advised postponing the war on pollution until “after the war on poverty is won.”

Today, however, a national environmental justice movement dominated by people of color is aggressively demanding attention to pollution—and to race, poverty, and apparent links between them. Sustained by a combination of research findings and widespread outrage among communities in toxic terror, the movement claims that a lack of power among poor and minority communities has saddled them with disproportionate burdens both in pollution and in environmental policy implementation.

In fits and starts, state governments are beginning to grapple with the issue. So is the Clinton administration, which in February 1994 issued executive order 12898 charging each cabinet department to “make achieving environmental justice part of its mission,” with the Environmental Protection Agency to lead the way. Having inherited an office of environmental eq-



uity from the Bush administration, EPA administrator Carol Browner renamed it the office of environmental justice, appointed a national environmental justice advisory council stocked heavily with advocates, and promoted strategic planning. Under assistant administrator Elliott P. Laws, EPA's office of solid waste and emergency response (OSWER) has made environmental justice a top priority.

All this—the energizing of the movement, the community activism, the state and federal response—sounds promising and is certainly well-intended. But the environmentally just society is not just around the corner. Many hurdles lie between the status quo and a thoughtfully reformed regime of environmental policy, one that confers significant additional benefits on traditionally disadvantaged groups.

The Movement Problem

Ironically, one problem is the movement itself. An artfully nurtured “big tent” embracing black, Latino, Asian, and Native American grassroots organizations and their allies, the environmental justice movement began in earnest with a now legendary 1982 Warren County, North Carolina, protest against a proposed PCB landfill. Demonstrations failed to stop the landfill, but hundreds of protesters were arrested. A subsequent study of hazardous waste landfills in the southeast by the General Accounting Office found that blacks were a majority of the population in three of the four “off-site” (that is, not associated with an industrial facility) landfills in the region. As time went on, other communities, in tandem with scholar-activists like sociologist Robert Bullard, would coalesce into a movement challenging what they saw as an unmistakable and insidious tendency to make communities of color society's dumping ground.

The problem the movement faces is crucial, and probably unavoidable. The movement has grown, and maintained internal harmony, through a blend of inclusiveness and ideological appeals that derails discussion of priorities and trade-offs. It tends therefore to avoid difficult but necessary decisions. For example, the notion of acceptable risk, basic to any realistic approach to health and safety, is suspect within the movement as an excuse for victimizing people of

color. A “bottom-up” coalition for which all grievances are created equal is especially hard pressed to think in terms of the relative risks and costs of such environmental hazards as childhood lead and farmworker pesticide exposures, Superfund cleanups, incinerator sitings, or even nonenvironmental health hazards. The movement presumes that any person of color voicing any environmental-related anxiety or aspiration represents a genuine environmental justice problem. Indeed, a broader redistributive and cultural agenda, as well as a profound discomfort with industrial capitalism generally, lurks just behind the concerns over unequal pollution impacts. To some extent this isn't really surprising. The same ethnic and neighborhood empowerment yearnings visible in “community action” a generation ago have remained with us all along, to resurface with an environmental spin.

Causal Problems

Through a blend of skillful grassroots mobilization, advocacy research, and well-crafted rhetoric, the environmental justice movement has placed its concerns on the national policy agenda. Although the full universe of empirical studies offers mixed support for the movement's claim of racial disparities in the distribution of pollution, a 1994 National Wildlife Federation review of 64 highly diverse studies concluded that all but one “found environmental disparities either by race or income, regardless of the kind of environmental concern or the level of geographic specificity examined.” In 1987 the United Church of Christ's Commission for Racial Justice, headed by Benjamin F. Chavis, Jr., released its report on *Toxic Wastes and Race in the United States*, finding that “communities with the greatest number of commercial hazardous waste facilities had the highest composition of racial and ethnic residents.”

But advocacy and research have not put to rest some tricky causal issues. If people of color indeed bear disproportionate environmental burdens, what role has government policy played in creating this state of affairs? What concrete health impacts follow from such burdens? And what ameliorative role can government policy plausibly play?

One complication lies in how one defines a burden. Proximity to an existing or potential site or facility may stimulate grassroots outrage but by itself says little about the degree of actual exposure or hazard posed. Because of variables such as groundwater dynamics and the quality of site construction or facility management, not all sites or facilities are equally dangerous. Experts agree that many of the 35,000 locations on EPA's inventory of hazardous waste sites probably pose little risk.

Besides being unhelpful regarding the distribution of actual risk, the Commission for Racial Justice study is also unreliable as a guide to the distribution of the waste itself. By confining its focus to off-site hazardous waste facilities, it overlooks the vast majority (up to 96 percent) of hazardous waste processed on-site by the entity that generates it.

A 1994 update of the commission study touches on another problem. The proximity of people of color to commercial hazardous waste facilities (or, for that matter, any other kind of noxious site) may be due to

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forces over which government, particularly the federal government, has little influence. The update notes that “between 1980 and 1993, the concentration of people of color living in ZIP codes with commercial hazardous waste facilities increased from 25 percent to almost 31 percent of the average population around the facilities.” The study offers several possible explanations, “including the migration, birth, or death of individuals, and the relocation, start-up, or closure of toxic waste facilities.” To the extent that poor people reproduce more rapidly than wealthier ones or that low land values attract both poor people and industrial facilities, as is clearly the case, federal policy will be hard pressed to address the resulting inequities. It is particularly telling that this apparent increase has taken place in the post-Love Canal era, as all communities, including those of color, became both more willing and more able to block proposed facilities.

The health risks posed by environmental toxins are freighted with as much uncertainty as any public policy problem we face. On some matters (asbestos, say) we arguably have both abundant knowledge and something approaching expert consensus. On others our understanding is extremely limited and will probably never be definitive. EPA officials and environmental justice advocates often speak about grappling with the “multiple, cumulative, and synergistic risks” espe-

THE HEALTH RISKS POSED BY ENVIRONMENTAL TOXINS ARE FREIGHTED WITH AS MUCH UNCERTAINTY AS ANY PUBLIC POLICY PROBLEM WE FACE.

cially relevant to communities of color facing a variety of potential environmental and other health stresses at once and over time. For purposes of practical (and highly politicized) policymaking on a community-by-community basis, though, the kind of knowledge envisioned may well amount to little more than a pot of gold at the end of the analytic rainbow. The reasons are obvious: a plethora of variables, insufficient command of their causal interrelationships, and mistrust of experts, especially should they produce findings that are either unsupportive of strongly held beliefs or riddled with ambiguity. Like the mainstream environmentalism it has often criticized as insensitive to minority perspectives, the environmental justice movement has little use for the skepticism about alleged health risks that a growing literature argues is sometimes warranted.

Environmental justice advocates assert, plausibly enough, that poor and minority areas are a magnet for environmental hazards in part because wealthier and whiter ones that are better able to defend their interests can shun them. But whatever may have been true in the past, these days minorities and whites alike often effectively marshal local outrage to play the “Not In My Backyard” (NIMBY) game. And the environmental racism argument, unlike critiques of conventional

racial discrimination, posits disproportionate impact on minorities rather than a burden borne solely by them. Often a “minority area” is simply one with a “greater than average” percentage of minority residents. Since toxic air emissions, pesticide runoffs, and groundwater contamination cannot neatly select their victims by race or income, the inequities visited upon minorities afflict a great many others as well. Indeed, the range of arguably significant environmental equity comparisons is so broad that some doubtless cut the other way: many Native Americans, for example, breathe cleaner air than urban Yuppies and live further from hazardous waste than New Jersey’s white ethnics.

Themes of Justice

If science cannot lead us to the promised land, then perhaps politics and administration can at least get us part way there. After all, the environmental justice movement is less about the verifiable health cards being dealt than about strong suspicions of a stacked deck.

Like the movement that inspired it, the Clinton administration’s executive order casts the broadest possible net, essentially instructing the executive branch to look hard for ways to identify and respond to any minority concerns and interests that are arguably environment-related. Such concerns and interests extend far beyond the allegations of siting inequity that were crucial to getting White House and media attention. Two years after the order’s promulgation, the basic outline of the government’s implementation effort has emerged. Apparent in planning efforts throughout the government, it embraces five overlapping themes: participation, information, development, enforcement, and prevention. This mix reflects demands for local empowerment, the plethora of programs at which they are directed, and the menu of responses available (especially without new money or legislation). The movement’s bottom-up demands have yielded an analogous (albeit tentative and mostly low-profile) hodgepodge of agency-level process innovations.

A broad combination of outreach to, participation by, and information for communities of color forms the core of federal environmental justice empowerment efforts today. In theory at least, every department and large agency offers advisory panels and rulemaking or allocative processes that might be made more permeable to the voices and interests of disadvantaged minorities. EPA’s OSWER is pushing community advisory groups to “promote early, direct, and meaningful public involvement in the Superfund cleanup process.” Defense has advisory boards to expand community involvement in cleanup decisions at military bases. Health and Human Services offers funding for environmental risk communication and education in minority communities.

On the development front, OSWER is pursuing an ambitious initiative on urban “brownfields,” contaminated property often shunned by developers, banks, and insurers at least partly because of environmental concerns. Last July OSWER announced 15 cities that would each receive \$200,000 in seed money to help nurture the return of brownfields to productive uses. OSWER’s efforts dovetail with Housing and Urban

Development's empowerment zones and enterprise communities program for directing community development funds to distressed areas.

There is also now tough talk from EPA about making enforcement more equitable. Current Supreme Court equal protection doctrine holds that plaintiffs must prove *intentional* discrimination, but intent is often impossible to demonstrate successfully. As a potential avenue of redress for communities of color, EPA and the Department of Justice are showing considerable interest in Title VI of the 1964 Civil Rights Act, which provides that "No person in the United States shall, on the ground of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal financial assistance." As Washington University Law Professor Richard Lazarus notes, "The principal advantage of Title VI over equal protection is that courts have not required a showing of discriminatory intent. . . . Disparate impact has been enough." By last summer EPA was reviewing some two dozen petitions for redress under Title VI.

Pollution prevention is perhaps where environmental justice advocates find the easiest common ground with traditional environmentalists. Both see "green" technologies as a crucial weapon since preventing pollution obviates the need for distributing it equitably. And environmentalists have often viewed grassroots NIMBY activity that constrains treatment, storage, and disposal capacity as a weapon in the long-term war to force prevention. For these reasons, and because of significant successes in source reduction, it has been easy to recast ongoing prevention efforts as serving the cause of environmental justice.

Blunt and Fragile Instruments

To the extent that risk abatement and health improvements remain major environmental justice goals, emerging policies will prove blunt, or even irrelevant, instruments for their achievement. Brownfields redevelopment has little immediately to do with health. The director of environmental quality for the National Association of Manufacturers notes gamely that economic development will help improve health, because "the worst thing healthwise is to be poor." But the brownfields sites themselves pose mostly minor health threats. Indeed, EPA's ability to make the brownfields program work hinges on the relatively mild contamination at many sites and the relative ease with which the agency can lower, or at least clarify, future liability.

And while participation and outreach address the need for locally acceptable policies, they do not automatically assure that the most serious community health risks are given highest priority. What they may actually assure in some instances is that the loudest voices, the shrewdest or most diligent organizers, and the most obvious targets of local outrage will be elevated.

Nor is it by any means clear that environmental risks are always the most serious health risks that communities of color face. Hypertension, obesity, low birthweights, inadequate prenatal care, substance abuse, and violence are only some of the forces that ar-

guably deserve pride of place in the struggle to improve the lives and health of communities of color. That such forces are more intractable and harder to mobilize around than a Superfund site or a proposed landfill must not deter communities from asking (and being vigorously encouraged by government policymakers and others to ask) hard questions about overall health priorities.

Federal environmental justice policy also remains extremely fragile in Washington. Even when Democrats controlled Congress during the first two years of the Clinton administration, environmental justice made little headway on Capitol Hill. In fashioning its largely doomed environmental agenda for the Democratic-controlled 103rd Congress, the administration left aside a tough bill proposed earlier by then Senator Al Gore. Gore's bill ordered EPA to scrutinize human health in the 100 counties containing the highest total weight of toxic chemicals and, if adverse health effects were found, to impose a moratorium on future siting that compounded the problem. Analytic difficulties aside, such hard-edged federal restrictions were too politically explosive even among congressional Democrats, and the Clinton administration opted for a nonlegislative approach to environmental justice.

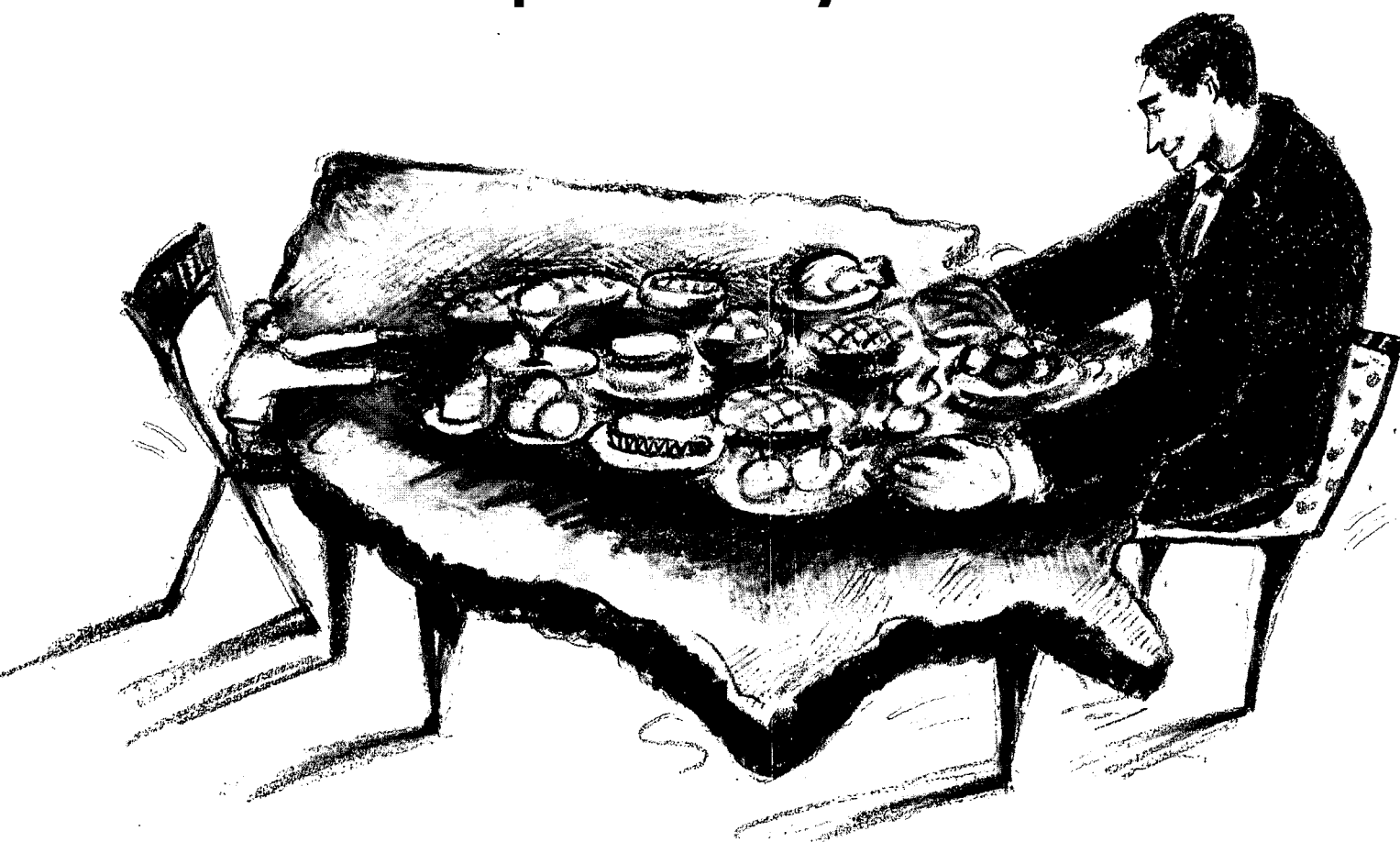
The Republicans who control Capitol Hill today rally around environmental justice of a different sort.

NOR IS IT BY ANY MEANS CLEAR THAT ENVIRONMENTAL RISKS ARE ALWAYS THE MOST SERIOUS HEALTH RISKS THAT COMMUNITIES OF COLOR FACE.

In the conservative lexicon, environmental injustice means excessive regulatory encroachment on private property rights. Even thriving EPA programs can never bear the full weight of the redistributive expectations of the environmental justice advocates, but in the current climate of attacks on EPA's resources and authority, the vision of environmental justice favored by environmentalists and the grassroots Left faces a dire predicament indeed. Reassurances to the contrary notwithstanding, it will be hard for agency leaders to pay much sustained attention to environmental justice when they have more fundamental battles to fight.

An obvious confluence of business and community interests suggests that brownfields redevelopment could remain the high-profile pillar of federal environmental justice policy over the long run. Enterprise-minded conservatives, in alliance with Democrats anxious to help cities, might be able to rally behind it, especially if crafted to minimize its pork-barrel aspects (or, alternatively, to make the pork so tasty as to be irresistible to both parties). But no one familiar with the array of pitfalls that can bedevil the implementation of complex, well-intended policies should be shocked if, a decade or two hence, the very mention of "environmental justice" evokes a wince, a sigh, or a quiet shake of the head. ■

Worsening American Income Inequality



Is World Trade to Blame?

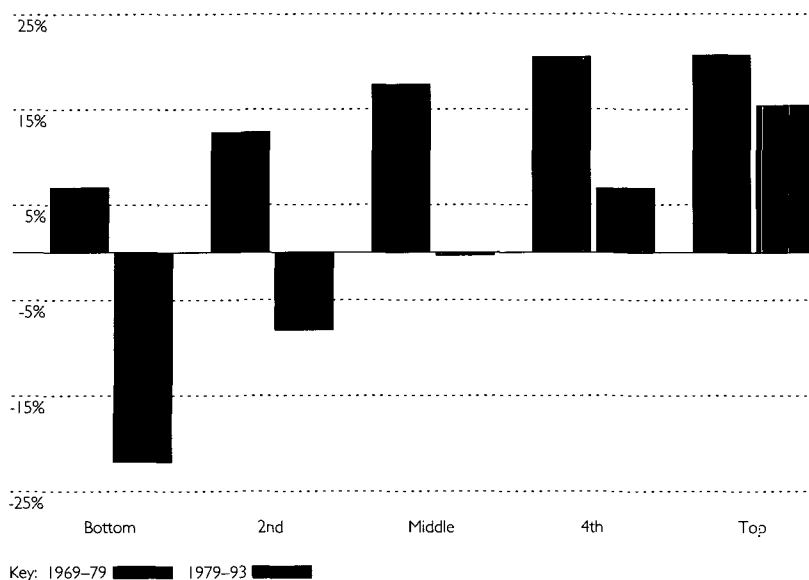
Since 1970 American incomes have become strikingly less equal. Living standards of poor and lower middle-class Americans have fallen while those of affluent Americans have continued to improve. And the trend toward inequality has not been confined to the United States. Nations throughout the industrialized world have seen income disparities rise since the late 1970s.

**GARY
BURTLESS**

Many people blame rising income inequality on the growing importance of trade, especially trade with nations in the developing world, in the past quarter century. In *The Trap*, a bestseller in Western Europe, Sir James Goldsmith argues that free trade with low-wage countries has harmed and threatens to impoverish low-skilled and middle-class workers in the advanced industrial countries. A similar argument was used by Ross Perot and other U.S. opponents of the North American Free Trade Agreement, who warned that freer trade with Mexico would eliminate industrial jobs and reduce the wages of semi-skilled U.S. workers. More recently, Republican presidential aspirant Patrick Buchanan has called for an “equalization tax” on imports from third world countries to protect American workers against competition from Asian and Latin American workers who may be paid one-tenth the U.S. industrial wage. How well does the case against free trade stand up to the facts?

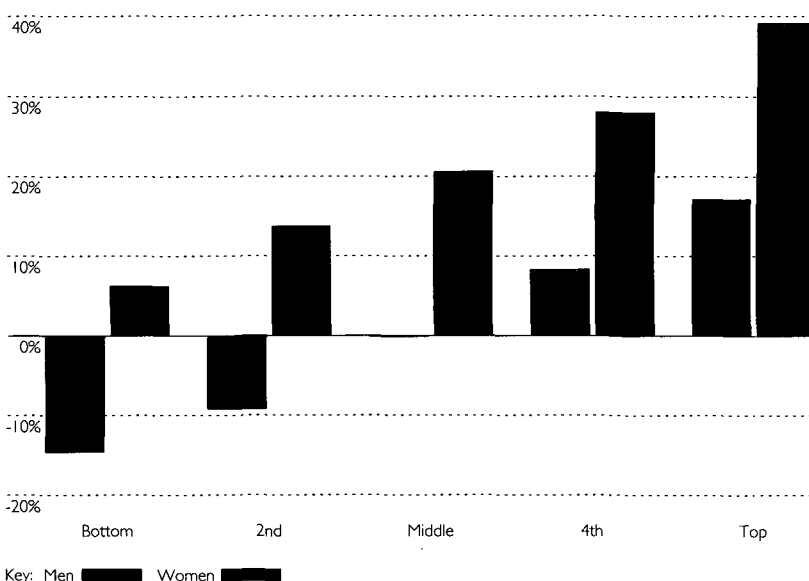
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Figure 1. Change in Adjusted Real Personal Income, by Quintile, 1969–93



Source: Author's tabulations of the March 1970, 1980, and 1994 Current Population Survey files.
 Note: Personal incomes are "adjusted" to reflect differences in family size. The top quintile extends only through the 97th percentile.

Figure 2. Changes in Real Earnings, by Gender and Earnings Quintile, 1969–93



Source: Author's tabulations of the March 1970, 1980, and 1993 Current Population Surveys.
 Note: Annual earnings of full-time, year-round wage and salary workers. Top quintile extends only through the 96th percentile for men and the 99th percentile for women.

Trends in U.S. Income Inequality

There is no disputing the worsening trend in U.S. income inequality. Figure 1 documents the rate of change in income for Americans divided into five quintiles of the income distribution. Income changes are calculated after taking account of changes over time in the price level and changes in the size of families in different parts of the income distribution. (Average family size shrank after 1969, so it took less income to support families at the same standard of living.) The black bars represent income changes during 1969–79, the red bars, changes between 1979 and 1993. During 1969–79, Americans in all quintiles made income gains, though people in the lowest income quintile made the smallest percentage gains. After 1979, incomes fell in each of the three bottom quintiles while continuing to grow in the top two. Compounded over the 24-year period, the differences in the rate of change in income imply dramatic movements in relative well-being. At the 5th percentile, income fell 34 percent; at the 95th percentile, it rose 43 percent. In 1969, income at the 95th percentile of adjusted personal income was a little less than 12 times income at the 5th percentile. By 1993, income at the 95th percentile was more than 25 times income at the 5th percentile.

Several developments lie behind the widening income gap, and most of them have little direct or indirect link to liberalized international trade. Significant gains in capital income during the decade of the 1980s, for example, caused unearned income to grow strongly in the top part of the income distribution. And at the same time, changes in the pattern of government transfers—with growing cash transfers going to the elderly, many of whom tend to be well up the income distribution, and shrinking cash transfers to the poor—reduced the effectiveness of those transfers in combating poverty. Changes in the structure of U.S. households also added to income inequality. Single-parent families are more likely to be poor than families that have two parents, and a much higher percentage of Americans now lives in single-parent families. Finally, the dramatic increase in paid employment among American women has tended to boost inequality since the late 1970s. In the 1950s and 1960s, families with a well-paid male earner were less likely than average to have a well-paid female earner. By 1993, families with a highly paid male earner were more likely than average to have a highly paid female earner. These non-trade-related economic and demographic trends account for more than half the growth in overall U.S. income inequality since 1969.

Earnings Inequality

Even if trade is not to blame for trends in unearned income or changes in the composition of American households, it could still be an important source of growing wage inequality. Figure 2, based on annual earnings reports in the Census Bureau's Current Population Survey, shows that between 1969 and 1993, earnings fell for men in the bottom 40 percent of the earnings distribution, remained unchanged for men in the middle quintile, and rose for men at the top. The disparate trends in wage earnings became more

pronounced after 1979. Earnings fell sharply in low-wage groups, and wage disparities between well-paid and poorly paid men widened at an accelerated pace. Although overall wage trends have been much healthier for women (black bars in figure 2), women have also experienced widening earnings disparities, especially in recent years. After 1979 women in the top quintile saw their earnings climb more than 25 percent. For women at the bottom, annual earnings fell after 1979.

Does Trade Harm Unskilled U.S. Workers?

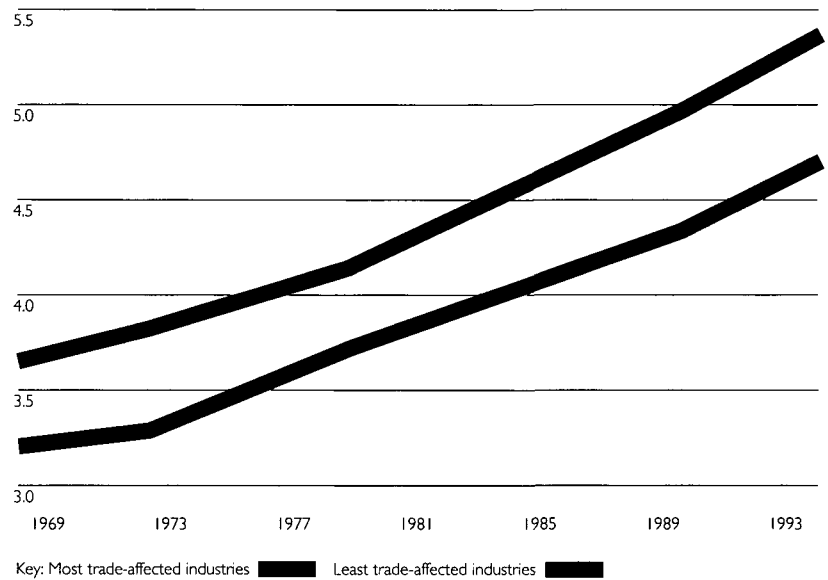
The argument that trade is to blame for U.S. earnings inequality rests on the assumption that trade hurts U.S. workers with skills similar to those of workers in developing countries. The intuition behind this view is straightforward: very poorly paid unskilled workers overseas take away job opportunities and drive down the wages of unskilled American workers.

It is easy to see in theory how surging exports from developing countries could harm less-skilled U.S. workers in the trade-affected industries. To counter the competition from cheap unskilled labor abroad, American employers must reduce the wages, or make less intensive use, of unskilled labor if they wish to remain in business. Presumably, some employers who continue to rely heavily on unskilled workers will go bankrupt, others will move production overseas, others will adopt new technologies that permit them to dismiss some unskilled workers, and still others will specialize in new products where relative wages and factor prices favor production in the United States. No matter which alternative they choose, the demand for less-skilled workers in the traded-goods industries will fall. Shrinking demand will reduce the relative wage of less-skilled workers in comparison with highly skilled workers.

But if trade is the main factor behind the growing woes of unskilled workers in the traded-goods industries, then firms that do not produce internationally traded goods and services should take advantage of the shrinking wage of less-skilled workers by hiring more of them. If, instead, they also begin to pare back use of unskilled labor, it must be something other than (or in addition to) trade that is lowering the demand for less-skilled workers.

Figure 3 helps show whether trade is behind the drop in relative demand for less-skilled labor. It compares wage inequality trends among male workers in two broad classes of U.S. industries—one (including manufacturing, mining, and agriculture) that is highly trade-affected and another (including construction, retail trade, personal services, and public administration) that is not trade-affected. (An excluded group of industries, including transportation, wholesale trade, finance, and insurance, falls in an intermediate category.) Earnings inequality is calculated as the ratio of annual earnings at the 90th percentile of the earnings distribution to earnings at the 10th percentile. Male inequality is growing in both the most and the least trade-affected industries, and it is growing at the same rate—47 percent between 1969 and 1993. Although wages are more equal among women in trade-affected industries than among women in the least-

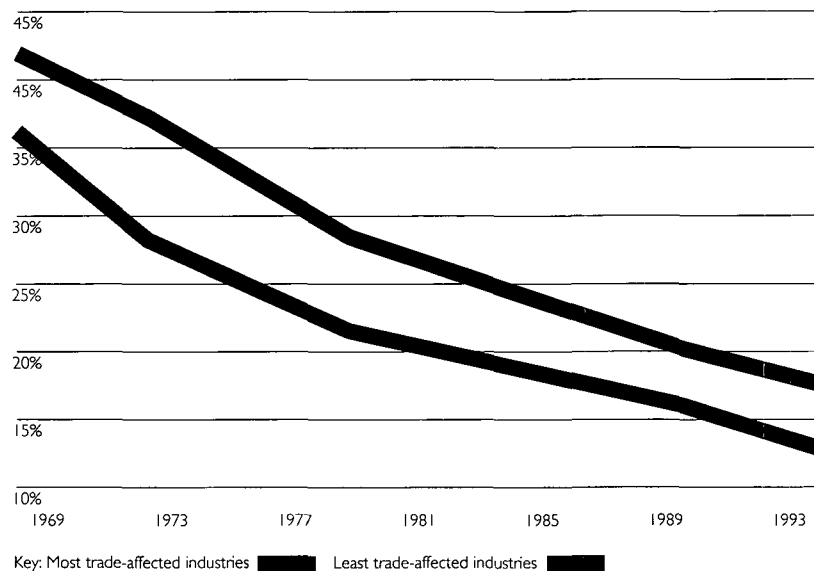
Figure 3. Ratio of Earnings of Male Workers at 90th Percentile to Earnings at 10th Percentile, 1969–93



Source: Author's tabulations of selected Current Population Surveys.
Note: Annual earnings of full-time, year-round wage and salary workers.

In 1969, income at the 95th percentile of adjusted personal income was a little less than 12 times income at the 5th percentile. By 1993, income at the 95th percentile was more than 25 times income at the 5th percentile.

Figure 4. Percentage of Full-time Equivalent Male Workers without a High School Diploma, 1969–93



Source: Author's tabulations of selected Current Population Surveys.

If we follow the advice of Ross Perot and Patrick Buchanan and erect a new wall of trade protection, we would do little to ease the plight of less-skilled workers. Too many other forces are conspiring to push their wages down.

affected industries, wage inequality among women has grown faster in the nontrade industries since 1979—the very period in which U.S. trade problems and manufactured imports were concentrated. When the data for men and women are combined, the earnings ratio in the most trade-affected industries rose 29 percent between 1969 and 1993—exactly the same as the rise in inequality across all industries.

The same pattern of relative earnings change is apparent in trends among workers with different levels of schooling. Educational pay premiums have risen since 1969 for every industry and for both sexes. But the premiums have not risen any faster in the industries most affected by trade than they have in other industries. For working men as a group, the premium for post-college education rose 36 percent between 1969 and 1993; for men in trade-affected industries, the premium rose 33 percent. And the gap in pay between high school dropouts and men with some college rose exactly as fast among men in trade-affected industries as it did among men as a whole. Women in the trade-affected industries had a somewhat larger rise in the post-college pay premium than women in other industries, but the difference is comparatively small.

Even though wage inequality and educational pay premiums moved in the same pattern across different industries, liberalized trade may still explain the pronounced shift toward greater inequality. In a competitive and efficient labor market, pay premiums for skill and education should eventually rise and fall together across industries, whatever the reason for the change in pay premiums.

But if trade from newly industrializing countries in Asia and Latin America is placing special pressure on producers in trade-affected industries, we would expect these industries to shed low-wage workers *faster* than industries where competitive pressure comes exclusively from other domestic firms. To what extent was this the experience in the United States?

Between 1969 and 1993, trade-affected industries did indeed reduce the percentage of less educated workers on their payrolls (figure 4). In 1969, 42 percent of male and 45 percent of female workers in trade-affected industries had no high school degree. By 1993, those figures had fallen to 18 percent for men, 17 percent for women. These trends certainly seem consistent with the view that liberal trade has deprived less-skilled workers of job opportunities in the traded-goods sector. But employment patterns in industries unaffected by trade moved in exactly the same direction. The percentage of male workers without a high school degree in the industries *least* affected by trade fell from 36 percent in 1969 to 13 percent in 1993. If anything, industries unaffected by trade cut their use of low-skill workers even faster than trade-affected industries—a pattern that is extremely hard to square with the claim that foreign trade is the main factor behind soaring wage inequality.

Beset on All Sides

Over the past quarter century, the nation has seen a dramatic shift in the pattern of demand for workers with different levels of skill. Job opportunities for the less-skilled have shrunk, and relative wages for un-



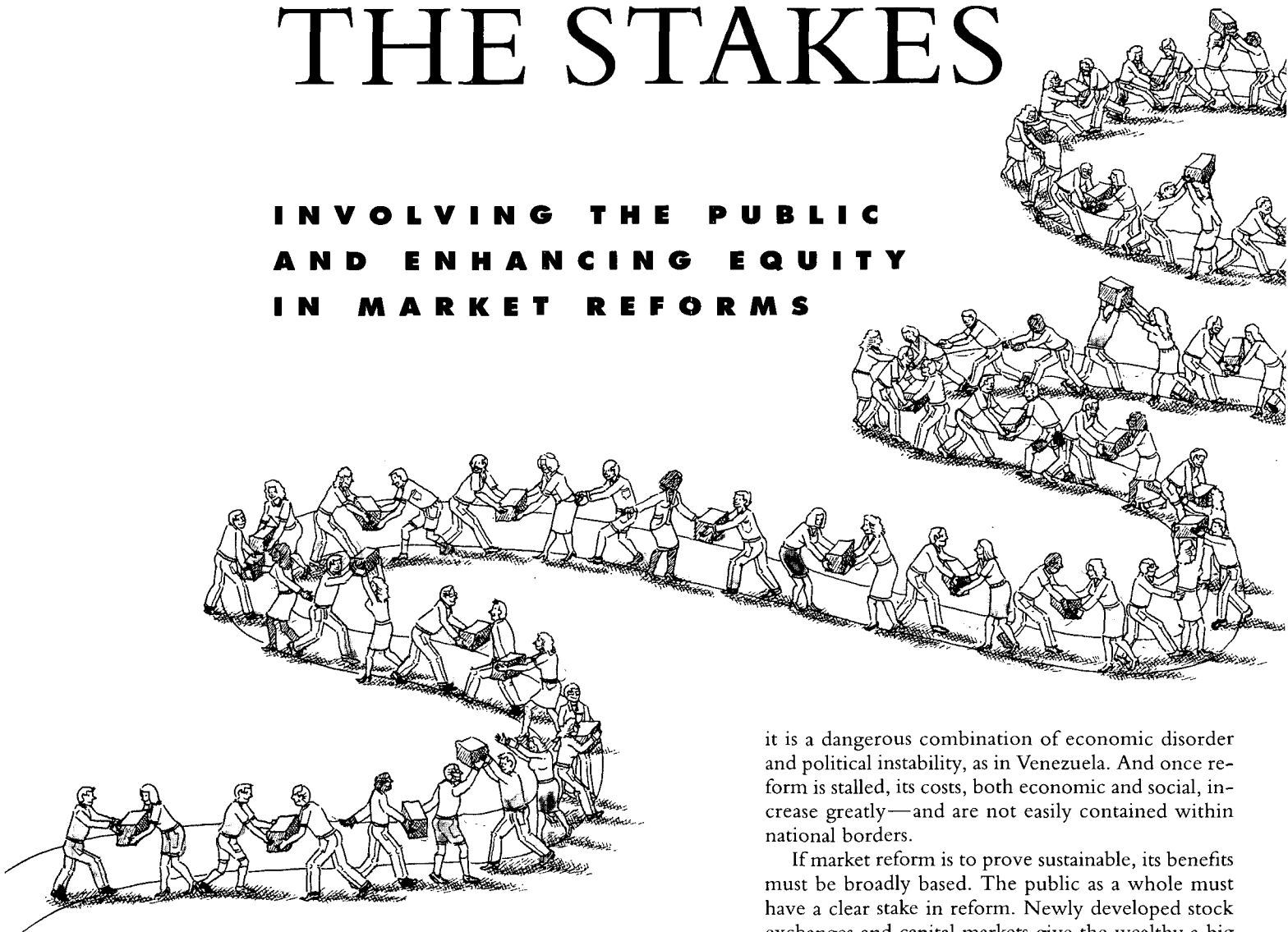
skilled and semi-skilled workers have plunged. But these trends are not confined to the traded-goods sector. They are also apparent in industries, such as construction and retail trade, where international trade is a minor concern. International trade, it seems, has not been the decisive factor in the trend toward greater earnings inequality. Other developments have been at least as influential, if not more so.

Among economists, the leading explanation for increased wage inequality is changes in the technology of production. Such innovations as the personal computer or new forms of business organization have favored workers with greater skill and reduced the value of unskilled labor.

But other developments are also at work. Economic deregulation, new patterns of immigration into the United States, declining minimum wages, and the dwindling influence of labor unions have also contributed to the job woes of unskilled and semi-skilled workers. Liberal trade with the newly industrializing countries of the world has certainly played a part in worsening the job prospects of America's unskilled workers. But if we follow the advice of Ross Perot and Patrick Buchanan and erect a new wall of trade protection, we would do little to ease the plight of less-skilled workers. Too many other forces are conspiring to push their wages down. ■

RAISING THE STAKES

INVOLVING THE PUBLIC AND ENHANCING EQUITY IN MARKET REFORMS



CAROL
GRAHAM

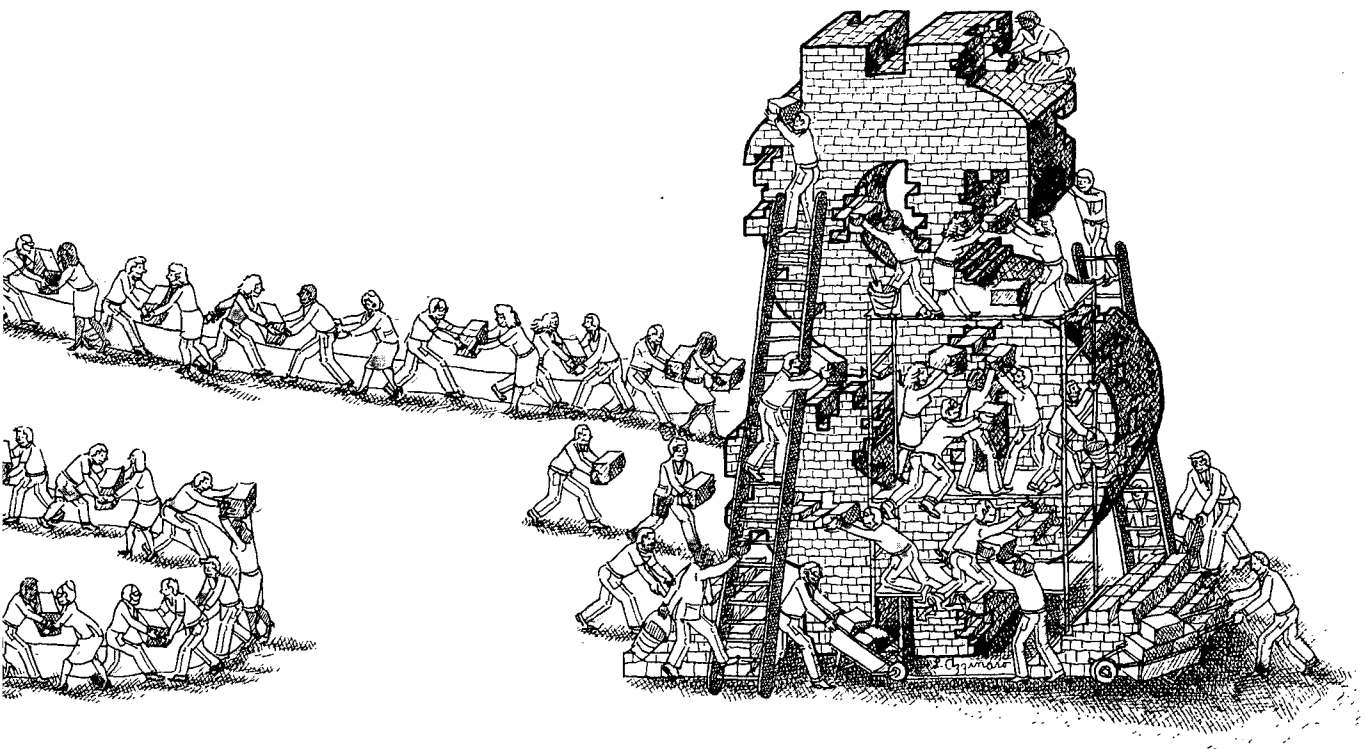
Worldwide resource constraints and ideological shifts are pushing more and more countries—not just communist and other state-led economies, but advanced industrial economies as well—toward the market. Many are moving beyond economic reform to reevaluate the role of government. Countries as diverse as Great Britain, Chile, Spain, Ghana, Poland, Argentina, Ukraine, and Vietnam are engaging in similar debates about trade-offs between current consumption and future growth, fiscal constraints, and the need to reform oversized and inefficient public-sector bureaucracies.

Is the move to the market politically sustainable? Uncertainty about the equity effects of market-oriented reform is already an issue. Voters in many countries are rejecting continued market reforms and opting for “populist” politicians who promise cost-free transitions to prosperity. At best the result is the stalling of reforms, as in Russia, Hungary, and Slovakia. At worst

it is a dangerous combination of economic disorder and political instability, as in Venezuela. And once reform is stalled, its costs, both economic and social, increase greatly—and are not easily contained within national borders.

If market reform is to prove sustainable, its benefits must be broadly based. The public as a whole must have a clear stake in reform. Newly developed stock exchanges and capital markets give the wealthy a big stake early in the process. But such macroeconomic reforms offer few immediate benefits to the majority, for whom the salient issues are more difficult ones involving equity, social welfare, social security, and basic public service delivery. Unfortunately, the consensus that reigns among policymakers concerning the principles of economic reform breaks down completely when it comes to the role of social welfare institutions and how to reform them. And the vast sums governments spend on social welfare and social insurance (41 percent of all federal spending in Chile, 50 percent in the United States, 60 percent in Costa Rica) give the issues fiscal as well as ideological significance.

Institutional reforms are also much harder to implement. Macroeconomic reforms require swift and decisive measures that can be carried out by a small group of policymakers, usually concentrated in the executive branch and relatively isolated politically. Popular acquiescence is necessary, but active cooperation on a widespread scale is not. In contrast, changing institu-



tions and the way they deliver services is time-consuming and involves many actors. It also usually requires challenging powerful groups that deliver essential services, such as health care and education.

Despite these difficulties, an increasing number of countries are undertaking institutional reforms. And a convergence of thinking, if not a consensus, on reform is emerging. Some of the most successful reform efforts employ two strategies simultaneously. First, they increase the role of market incentives and individual initiative while reducing the role of the state. And, second, they involve local government and community organizations in managing reforms. The objective in both cases is to give more citizens a stake in reform.

One key to this stakeholders' approach is to ensure that reforms benefit as many citizens as possible (for example, through enabling them to acquire shares in public companies) so that beneficiaries are motivated to vote, lobby, and even protest to prevent the reversal of the reforms. A second, equally critical, key is to increase public awareness and understanding of reform. Whether in reforming social service delivery, in redesigning social security systems, or in privatization, the stakeholders' approach means reorienting public institutions to respond to new incentives given to a broad base of citizens. In political terms, the aim is to counter the array of incentives that encourage actors within the public sector to oppose reform.

Ideally, these institutional reforms will be part of the market reform process and complement its macroeconomic and fiscal rationale. Reform of the pension system that raises individual contributions, for example, can increase national saving and contribute to capital market development. Reform of the education system that increases local responsibility in management can distribute public resources more efficiently and equitably, while encouraging private alternatives. Privatiz-

ing large state-owned enterprises reduces the fiscal burden on the state and can encourage private sector development, parceling out resources and responsibilities to new stakeholders.

Though not specifically directed at the poor, stakeholder reforms can also benefit them, as poor citizens rely more than the wealthy on public services and thus stand to benefit from their reform. Increasing the participation of the poor may also strengthen their political voice, which will ultimately shift public spending in their direction.

Privatizing Industry

Political support for market reform is fragile in many of the former Soviet bloc nations, and many electorates have voted reformist governments out of office because of concerns about equity and social welfare. Among this group of nations, the Czech Republic has gone farthest in building a market system, and its polity is the most supportive of the market approach. Part of this popular support is cultural, part the result of a relatively healthy economy. Yet the role of Prime Minister Vaclav Klaus in presenting and marketing reforms has also been crucial. Early in the transition, the government gave citizens the option to purchase vouchers in privatized enterprises. The vouchers, which could either be kept or sold at auction, were worth \$35, the equivalent of one week of the average wage. Out of an eligible population of 10.5 million, 8.5 million people participated in the program. Its success is one reason that Czech voters have consistently voted to continue the reforms.

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The stakeholders' approach is much more problematic in a country where overall poverty rates are higher. Peru, where the poverty rate is almost 50 percent, also tried recently to involve the public in privatization. In 1990, amid hyperinflation and deep recession, the government of Alberto Fujimori undertook a severe stabilization and adjustment program. Inflation was curbed and growth reached 12.9 percent in 1994. By the end of 1994, Copri, the Commission for Promotion of Private Investment, had privatized 49 state-owned companies, garnering more than \$3 billion in new state revenue. Yet most shares were purchased by foreign firms, as few Peruvians could afford to participate.

In 1994 the government announced a "citizen participation" scheme, based in part on that of the Czech Republic. Obstacles were formidable: extremely low disposable incomes, public unfamiliarity with capital markets, and widespread distrust of savings schemes following the recent collapse of a large informal savings market, the CLAE. Copri offered shares on a three-year installment plan with a 10 percent downpayment and a subsidized 12 percent annual interest rate for monthly payments. Copri also protects investors against falling share prices during the three-year period.

In November 1994, 4 million shares (about 5 percent of the total) in the cement firm Cementos Norte Pacasamayo were offered to the public. Maximum packages were limited to \$4,500. More than 3,000 people bought the shares in only three hours. Copri then offered 3.2 million more shares, reducing the maximum to \$2,000 to encourage smaller investors. In only 45 minutes, more than 6,600 investors bought all those shares. Yet a third sale, with maximum purchases reduced further to \$1,404, brought the total of investors to 18,500.

The privatization scheme was aimed at Peruvians whose income is less than \$500 a month. Purchasers included street vendors, housewives, public sector workers, and low-income professionals. Nine out of ten had never bought shares before. Following up its active public information campaign announcing the sales, Copri has also offered training programs for participants. Only 3 percent of all participants have sold their shares; most have kept them as savings. And only 2.5 percent have failed to pay their monthly installments. Copri now plans to sell \$1.4 billion worth of shares in state-owned companies to half a million participants. For all its success, however, Copri's program has not reached Peru's poorest citizens—a majority of the country, whose income is less than \$250 a month—who have yet to benefit from market reforms beyond the benefits of curbing inflation.

Privatizing Social Security

Chile was the first nation in the world to privatize social security. Since the new private system was set up during the mid-1980s, 94 percent of Chilean workers have elected to join. Critical to the system's success was the government's public relations campaign, designed to educate the public and encourage participation. A higher rate of return on pension contributions also encouraged workers to opt for the private system. The reform is now credited with helping to raise the na-

tional saving rate (from close to zero in 1980 to an average of 17.1 percent of GDP in 1990–92). The average rate of return on investments in the private system is an impressive 14 percent.

The government guarantees a minimum pension to workers too poor to participate in the private system. These pensions are extremely low, resulting in a pensioner's "underclass" of sorts. Still, the vast majority of Chileans support the new system, and the transition to democracy in 1990 brought no mention of returning to a public scheme.

Peru too has launched a pension privatization scheme, both to rescue its insolvent social security system and to stimulate the local capital market. Yet only 40 percent of Peru's labor force is covered by either the new private or the old public system. Slightly more than 1 million workers joined the private scheme, while roughly 1 million remain in the public system. The average return of the private funds has been 9 percent.

Workers who switched to the private system tend to be younger and wealthier than average. The higher contribution rates (initially a difference of 5 percent of workers' salaries, now only 2 percent) were unaffordable for poor workers. The government tried to correct this discrepancy last June by lowering the contribution rate for the private system, raising it for the public system, and prohibiting new entrants to the public system. The reforms also provided the legal basis for a minimum pension in the private system, though without putting it into effect. Yet most poorer workers, after years of hyperinflation and the 1992 collapse of the CLAE market, have little faith in saving in general. In addition, the government did not inform the public adequately about the new pension system, and what information was available was primarily an advertising campaign by the private pension funds.

Workers in the new private pension system have a new stake in Peru's reform process. Yet reform has been able to reach few of the extremely poor, and low-income workers still have no guarantee of an adequate pension. Introducing market incentives into social security in Peru may have merely replaced an inefficient scheme with an inequitable one. On the other hand, if in the long term the new scheme can increase the saving rate and help develop capital markets, it may enhance growth, which is critical to reducing poverty.

Education and Health Services

At roughly the same time it undertook pension reform, Chile introduced school choice, giving students the option to choose private instead of public schools through a system of subsidized vouchers. The portion of the population in the private system rose from 20 percent to 35 percent. Few of the poorest Chileans chose to enter private schools, however. Despite the vouchers, attending private schools was more costly (extra bus fares, for example). And information about the alternative schools was inadequate. In fact, many parents did not even know of their right to find better schools for their children. In addition, higher-quality schools tended to seek out children from "stable" and often wealthier families through the admissions interview process. While the private system appears to have

benefited from the reforms, losses of both human and physical capital have weakened the public system.

Despite the evident flaws in the system, voters did not try to reverse school choice when Chile returned to democracy. Clearly, the reform created enough stakeholders to outweigh its negative equity effects, at least in political terms. Moreover, the government has been able to address the needs of poorer Chileans through targeted programs to improve the public schools.

In 1991–92, the Fujimori government in Peru introduced a set of education reforms modeled on Chile's. The reforms had three objectives: to transfer administrative responsibility for schools to the municipalities, to tie funding to the number of students, and to create a system of public subsidies for private schools. The reforms were never implemented. In part Fujimori feared the political power that opposition mayors could accrue as managers of education funds. In addition, during the October 1993 constitutional referendum, the opposition campaigned nationwide against the reforms, citing the negative equity effects of Chile's voucher program. The referendum found Fujimori the winner overall, but the loser in most rural (and usually poorer) provinces, largely over education reform. Had a Chile-style reform been implemented in Peru, where poverty is much higher and administrative capacity far weaker, it is likely that the negative equity effects would have been far more severe.

In 1991 Zambia set in motion extensive market reforms amidst a transition to democracy. In addition, the new government of Frederick Chiluba also attempted major reforms in the health sector. Local actors were given new responsibilities for management and finances, while a strong pro-reform team within the Chiluba government kept central level actors from blocking reforms.

Yet the government, which initially "sold" the health reforms to the public, has failed to keep up its public relations and education efforts, and weak public understanding has led to the reforms having unintended effects, particularly for the poor. The introduction of user fees, for example, has sharply reduced the participation of the poorest in the public health system, despite more general progress in reforming service delivery. Since the fees were introduced, health posts in poor urban areas report drops in visits on the order of 80 percent. Meanwhile, popular support for health reforms, as well as for economic reform more generally, has eroded, even as elections approach this October.

Zambia's severe poverty and weak administrative capacity limit the potential of any stakeholders' approach. Even so, when a new health minister recently tried to reverse reforms and recentralize power, his efforts were thwarted by newly empowered local managers. As the Zambian case demonstrates, devolving authority and creating some stakeholders at the community level can give momentum to reform and make it virtually irreversible.

Stakeholders, Political Sustainability, and Equity

Most countries that undertake market-oriented reforms do so because they have no alternative. Those that post-

pone or avoid reforms ultimately fare worse, prolonging economic hardship and increasing poverty, as the poor are particularly vulnerable to economic instability. States that have implemented timely reforms have attained higher growth rates and reduced poverty, although their records at reducing existing inequities vary.

The record of the stakeholders' approach to institutional reform has also been mixed. Clearly it can contribute to the sustainability of macroeconomic reform: increasing the involvement of individuals gives reform a momentum of its own. Voters in the Czech Republic, Chile, and Peru have strongly endorsed reforms in successive elections. The equity effects are far less clear, however. In most cases, the benefits of reform are extended to citizens who would otherwise be left out. Yet, particularly in the poorer countries, reforms still reach only a minority of the population.

The stakeholders' approach seems more successful in privatization or in creating private social security schemes than in public service delivery. At least privatizations and new pension schemes do not *reduce* the welfare of the poorest groups. Indeed, if privatizations improve the fiscal situation or if private pension systems raise national saving, for example, they may enhance the welfare of the poor indirectly. The effects of exclusion are very different in the case of public services, which are critical to and directly affect the welfare of the poor. Negative equity effects are of particular concern in countries where the majority rather than a small minority are excluded from reforms. And public sector reforms that allow people to choose private alternatives tend to reduce the size of the public sector, but not to resolve existing problems within it, which also harms the poorest groups who remain dependent on public sector services.

One result of the worldwide move to incorporate market principles into the delivery of services is likely to be a widening gap between rich and poor countries. In countries such as Chile or the Czech Republic, only a small minority is left behind by reform and government policy targeted to that group can help correct inequities. In contrast, societies such as Peru or Zambia, where the *majority* is marginalized, may face severe problems in becoming competitive members of the world economic community, even if they are able to implement market-oriented macroeconomic and sectoral reforms.

The ongoing process of market reform—and its related application to reform of public institutions—clearly has increased the welfare and efficiency of most participants in the world economy. And international experience to date provides no better alternative. Yet the process has also had important and unresolved effects on equity, both within and among societies, that will fuel future debates on the role of government versus the market in providing essential social welfare services. The process also calls into question the possibility of a completely integrated world economy. Some societies will fall irreversibly behind, in both relative and absolute welfare terms. The implications of these inequities for global security, as well as for the international economic system, are likely to become an increasing concern for policymakers and academics alike. ■



Out
with the Old?

In with the GOP

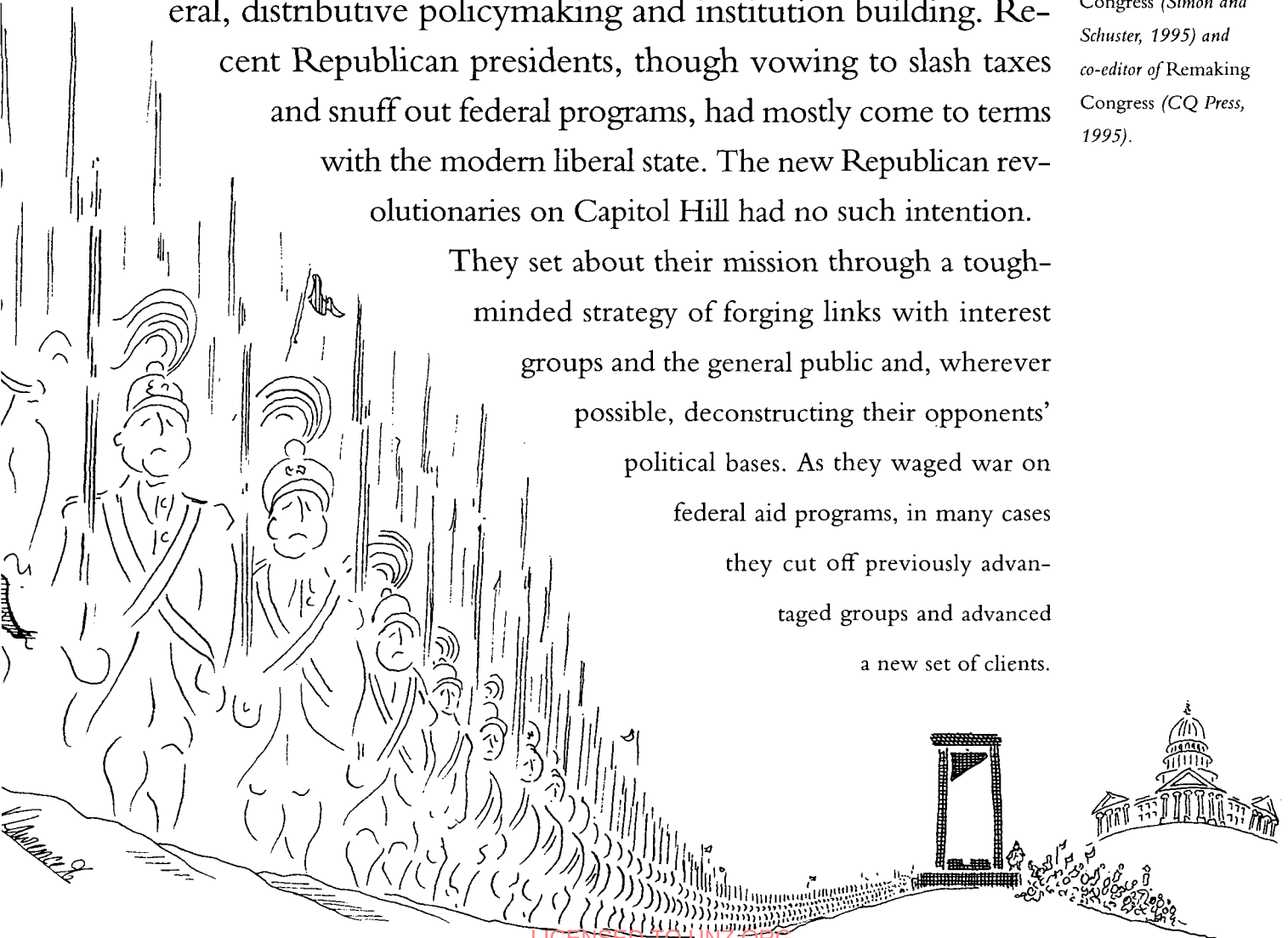
BUILDING A NEW REGIME ON CAPITOL HILL

ROGER H. DAVIDSON

The new Republican congressional majority faced a daunting challenge upon arriving in Washington late in 1994. To carry out their pledge to cut the federal government down to size, they had to pare back or wipe out the accretions of more than 60 years of liberal, distributive policymaking and institution building. Recent Republican presidents, though vowing to slash taxes and snuff out federal programs, had mostly come to terms with the modern liberal state. The new Republican revolutionaries on Capitol Hill had no such intention.

They set about their mission through a tough-minded strategy of forging links with interest groups and the general public and, wherever possible, deconstructing their opponents' political bases. As they waged war on federal aid programs, in many cases they cut off previously advantaged groups and advanced a new set of clients.

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New Players, New Rules

Realizing that the established congressional committees were safe harbors for entrenched interests, the Republicans altered the operations of Congress accordingly. The most radical changes took place in the House. In naming House committee chairs—departing from seniority in four cases—Speaker-designate Newt Gingrich was, strictly speaking, acting beyond his authority. No one objected, however, and the Republican Conference readily strengthened the leadership's leverage over committee assignments. Chairmen were warned that their posts depended on their pledge to report out items from the Contract with America, even if they personally opposed them. Chairmen's tenure was capped at three terms (the Speaker's at four). Leadership staffs were augmented while committee staffs were cut.

House Republican leaders used leadership-dominated committees to shape legislation and keep the trains running on time. The Rules Committee aggressively recast legislation and selected amendments to be appended or made in order. Although technically curbing the "closed" rules Republicans so despised when they were in the minority, the GOP-controlled Rules Committee managed floor debate efficiently under special rules that are just as restrictive. To counter the tendency of standing committees to drag their feet and heed too closely their interest group clienteles, Republican leaders attached policy innovations to the time-sensitive budget reconciliation bill and entrusted action to the Budget Committee, which could act quickly as an arm of the leadership.

During the 104th Congress's first hundred days, House committees were dragged on a forced march to complete action on the Contract with America. Often bypassing hearings or extended deliberation, they were rushed into action by the leadership to bring bills to the floor on time. At the first organizational meeting of the Government Reform and Oversight Committee, which had charge of five Contract items, Chairman William F. Clinger (R-PA) moved immediately from adopting committee rules to marking up a bill on unfunded federal mandates, on which no hearings had been held. "It was chaos," Clinger admitted.

Republicans also adopted new rules and procedures aimed at strengthening party leaders' management of the committees and reining in the autonomy enjoyed by committee leaders during the Democratic years. They began by establishing a tighter administrative chain of command—from the leadership through the House Oversight Committee to the committee chairs. Within the committees, chairmen arrange the subcommittees, select chairmen, and hire staff members. Committees were asked to absorb 30 percent cuts in budgets and staff. The distinction between statutory and investigative staff members was eliminated, with committees no longer automatically entitled to 30 of the former.

To orchestrate committee processing of key legislation, leaders made creative use of multiple referrals, including a new type, "additional initial referrals." In such referrals, the Speaker designates a primary ("lead") committee of jurisdiction and decides whether, when, and how long other committees will consider the legislation. Eleven committees considered the budget reconciliation package; the same number, the bill to dismantle the Commerce Department.

Prestige committees were stacked with junior members, mostly Contract loyalists. Six freshmen were placed on Appropriations, six on Budget, three on Ways and Means, and one on Rules. Appropriations subcommittee chairmen agreed (in writing) to their removal if they failed to follow the GOP Conference agenda. These steps brought unaccustomed partisanship to Appropriations subcommittees and expedited unprecedented numbers of "riders" (limitation amendments) to implement the party's policy goals.

To write high-priority legislation, GOP leaders often bypassed the committee structure entirely, using leadership committees (especially Budget and Rules) or ad hoc task forces, sometimes with the Speaker or Majority Leader personally overseeing the negotiations. When the Freedom to Farm Act was halted in the Agriculture Committee by opposition from influential interests (rice, peanuts, sugar), Speaker Gingrich, Majority Leader Dick Armey (TX), and Majority Whip Tom DeLay (TX) wrote a letter to Chair Pat Roberts (KS) threatening to bring the bill to the floor under an open rule, a step that

would essentially strip the committee of control over the bill's fate. Then a leadership e-mail message was leaked contemplating reprisals against the committee recalcitrants. In the end, the leadership simply pulled the plug and let the Budget Committee write a farm bill "with true reforms."

The pattern was often repeated. GOP leaders issued directives to committee chairmen on such disparate subjects as legal services, defense appropriations, banking reform, tax provisions, telecommunications, and District of Columbia government. "You can't depend on the committee system to make bold changes," explained Rules Chair Gerald B. H. Solomon (NY). "The leadership needs to pick up the slack."

Finally, House and Senate leaders often used task forces to counterbalance the standing committees. No one knows how many task forces exist; one count late in 1995 found 35 in the House. The most conspicuous example was the eight-member "design team," chaired by the Speaker, that crafted the party's Medicare proposal over the objections of Chairmen Bill Archer (TX) of Ways and Means and Tom Bliley (VA) of Commerce. Task forces often engaged in such competition with the standing committees, whose members, staffs, and allied interests were hard pressed to cope with novel, unfamiliar groups of players.

Some observers, noting Speaker Gingrich's fascination with "third wave" (post-industrial) management,

REPUBLICANS SET ABOUT THEIR MISSION BY FORGING LINKS WITH INTEREST GROUPS AND THE PUBLIC AND BY DECONSTRUCTING THEIR OPPONENTS' POLITICAL BASES.

believe that he would like to replace traditional committees with more fluid arrangements. That may overstate his intentions, but certainly task forces suit his immediate legislative goals. Task forces are informal and short on rules, staff, and press coverage; friendly lobbyists are easily invited to the table, while opposing groups can be excluded.

Changes in committee structure transferred power from Democratic-oriented interests to those linked with the Republicans. When Democrats ruled on Capitol Hill, groups like the AFL-CIO, the Sierra Club, or the Children's Defense Fund were favored; now the insiders are groups like the Family Research Council, the National Federation of Independent Business, and conservative advocacy shops like the Heritage Foundation or the Cato Institute.

Given an ambitious agenda and a deficit of expertise—hordes of inexperienced members served by staffs that were often equally green—it was perhaps inevitable that Republicans turned to friendly lobbyists to help draft legislation. Group agents infiltrated the deliberative process more blatantly than under the Democrats: they sat on the dais during committee sessions, they screened prospective witnesses, and they briefed reporters on legislation they drafted.

Like the Democrats, Republicans have shaped their key legislation, including tax provisions, tort reform, Medicare, welfare reform, and telecommunications, to meet interest group demands. In drafting the Clean Water Act, for example, the Transportation Committee called on the Chemical Manufacturers Association and other business groups, while pointedly excluding environmental and consumer groups. During committee work on welfare reform, Republican governors and their agents were much in evidence, while traditional welfare advocates were mostly sidelined. The nation's largest provider of welfare services, Catholic Services USA, fought to testify before the Ways and Means Committee but was scheduled at night after most members had departed.

Defunding the Left

House Republicans were unblinkingly partisan when it came to loosening the liberals' hold on the committee system. By tradition, of course, committee staff ratios (approximately two-thirds for the majority, one-third for the minority) were reversed in both chambers. Eliminated were three committees with mainly Democratic constituencies—District of Columbia, Post Office and Civil Service, and Merchant Marine and Fisheries. Left alone were the Small Business and Veterans' Affairs panels, whose powerful constituencies were closely allied with the GOP.

The new regime also marginalized legislative service organizations (LSOs), which had occupied House office space and procured staff and supplies with members' pooled funds. Liberal groups were especially enfeebled. The 28 LSOs included 11 liberal and 11 indus-

try or regional groups, 2 bipartisan state delegations, and 2 Republican and 2 Democratic groups. Among those defunded were the Democratic Study Group, the black, Hispanic, and women's caucuses, and groups promoting the arts, the environment, human rights, arms control, and federal employees.

Republicans have also tried to restrict "political advocacy" by federal agencies and nonprofit groups paid to run government-sponsored programs. Although these groups cannot use federal money to influence the government, conservatives contend that they commingle public and private funds to subsidize lobbying and political activity. Seeing most such groups as part of a liberal infrastructure, opponents vow to "hunt [them] down one by one and extinguish their funding sources," according to Grover G. Norquist, a GOP strategist and Gingrich ally.

One proposal, by Senator Alan Simpson (R-WY), became law as part of the Lobbying Disclosure Act of 1995. It bars federal grants to large groups with a 501(c)(4) tax status, which covers such "lobbying machines" as the American Association of Retired Persons (AARP) and the Environmental Defense Fund.

A more extreme measure, pushed with leadership support by Rep. Ernest J. Istook (R-OK) and David M. McIntosh (R-IN), covers an even larger category of charitable 501(c)(3) and 501(h) groups that receive federal money and spend more than 5 percent of their revenues on broadly defined advocacy. Although thus far dropped from pending bills, this proposal will surely surface

again. It raises serious constitutional questions; civil libertarians and hundreds of nonprofit groups, from the American Cancer Society to the Girl Scouts, have spoken against it. What is noteworthy about these proposals is their patent goal of limiting the effectiveness of groups associated with the post-New Deal liberal regime and of clearing the way for further pursuit of the new regime's policy goals.

Unbuilding the Great Society

Will the new Republican regime endure? Can it dismantle the New Deal-Great Society regime? As the naïve GOP freshmen discovered, it cannot be achieved overnight. It will take a few more election cycles before we can speak confidently of a Republican era. But the political tectonic plates are in motion. Republicans are now framing the policy agenda, forcing opponents to do battle on their own turf. And although many are claiming that the Republican revolution has stalled, just one year into the GOP-controlled 104th Congress President Clinton was trying to coopt conservative issues and proclaiming that "the era of big government is over."

In a surprisingly short time, the new regime has transformed not only the content of policies, but the structures and rules through which they are made. But haven't we always known that policy substance and policy processes are inevitably bound together? ■

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Assessing the 104th Congress

(This One Is Different!)

BILL FRENZEL

IT IS RASH TO EVALUATE a Congress before its full two-year term has been completed. Assessing it on the basis of its first one-year session is even riskier. Still, while a proper review must come later, the 104th Congress has surely been interesting enough and different enough to warrant some kind of peek now.

To begin, the 104th's first year, 1995, is grinding to its conclusion in 1996, with Congress and the President locked in a clash of wills over the budget. On the outcome of that struggle hangs nearly everything Congress has tried to accomplish this past year. Because the President has acquiesced to three key congressional demands—he accepts the budget balance date of 2002, agrees not to use the rosier economic scenario created by his Office of Management and Budget, and does not object to reliable enforcement mechanisms—some observers believe that Congress should declare victory. Congress, however, doesn't feel like a winner. Perhaps unwisely, but completely in character, it wants more.



The Abnormalities

When the 104th reported for duty in Washington after the 1994 elections, its most important feature was the new Republican majorities in both bodies. In the Senate, that majority was abnormal. In the House, it was a miracle.

Senate Republicans had tasted majority status as recently as eight years ago and so had some experience managing issues, staffs, and procedures. In the House, no Republican even knew a party member who had served in the majority. Lacking experience, the rookies attacked their new chores with the only asset at hand, enthusiasm.

As luck would have it, Republican experience was in exactly the wrong place. Experience is less important in the Senate, which has no known rules save one: rewards go to those with the most persistence and staying power. In the House, where the important bills originate and tight rules and scheduling make experience a necessity, there was, as noted, only enthusiasm.

Republican first-termers in the House were a cohesive band of tree-shakers and wave-makers. Intolerant of government and of deficits and hungry for change, they did not come to learn or to cooperate or to compromise. Unlike their go-along-get-along predecessors of the past 25 years, they came to make war, not love. Arriving in Washington in that spirit is not unheard of, but they managed to resist the system's blandishments and stay that way. The Senate's new Republicans had similar inclinations. Senate rules and traditions made them look like pussycats compared with their House counterparts, but in fact they were only slightly less fierce.

House Republicans swiftly assumed the mantle of philosophical leadership, not only of Congress, but of the government. For the first 11 months of the year, the congressional majorities framed the issues, set the priorities, and almost completely eclipsed the President. From the State-of-the-Union speech until Veterans' Day, the President remained out of sight. Inside the beltway, people thought Speaker Gingrich had kidnapped him. Outside the beltway, they thought the Speaker was the President. So did he. This is abnormal. Usually only senators think they are the President.

One more oddity was the brief appearance of King Caucus after 20 years of deep sleep. In the House his presence was hardly noted because the Speaker made a more easily identifiable and more abusable villain. Also, Republican solidarity was so strong that the King did not have to flex his muscles. His appearance in the Senate was also a cameo. He was restored to his coffin when an attempt to discipline a Republican Senator for a "bad" vote on the Balanced Budget Amendment failed.

The Events

After the election, the new majorities got off to a running start. In the winner-take-all environment of the House, they pushed their Contract with America to

votes within the first 100 days as promised. Although the Contract had not been taken very seriously by the public, House Republicans were determined to honor it. Since the Senate was similarly inclined, the Contract became the glue that held the majorities together in both houses. Until Easter, it consumed the total energies of both. House Republicans, often with help from Democrats, passed all but one Contract item. In the winner-take-very-little Senate, many Contract bills foundered or were greatly changed.

After Easter the budget became the core of majority efforts for the year. With much of the Contract stymied in the Senate, the idea of using the budget process to create and enforce a balanced budget became the proxy for the whole Contract. The proxy was easier to pass in the Senate because a reconciliation bill is not subject to filibuster. But, being vastly more complicated than the Contract, it was much harder to manage.

Inexperience was about to bite the House Republicans. They had no trouble stepping up to philosophical leadership, but moving the program was more difficult. Lack of experience slowed the progress of both appropriations and reconciliation bills. The failure to have these bills ready by the end of the fiscal year allowed the President to escape from the shadow of his eclipse. Congressional momentum slowed. The President's began to pick up.

Democrats in Congress, new to their minority role, played it poorly at first. Under House rules, the minority is so impotent that extraordinary solidarity and leadership are required to have any influence at all. House Democrats probably could not have changed the tide of the battle there in any case, but they could have made the President look better sooner. To compensate, as noted, the Republicans helped by making him look better later.

In the Senate, the minority learned its relatively stronger role more quickly. Assisted by one Republican defection, Senate Democrats held the 34 votes needed to stop the Balanced Budget Amendment in the first 100 days. Thus they established themselves as a potent force whose later filibuster threats had to be taken seriously. For the most part, they were ready, willing, and able to support their President. They stopped the momentum of the Contract, and, by mid-summer, were a highly effective minority.

As the Contract dominated the first 100 days, the budget and appropriations process dominated the rest of the session. Majority groups in both bodies were able to agree on a common budget plan, but not until late in the year. The delay gave the President a chance to look decisive and leaderly, while Congress looked clumsy. That veto looked better in November than it might have looked on September 30, and it enabled the President to snatch the political initiative, and poll approval, from the Republicans.

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Even under worsening circumstances, the majorities in both bodies stood their ground. So did the President. Aided by an update of economic assumptions in December, both sides should have been able to reach a conclusion in which each could claim bragging rights. They have not made it yet.

The Characteristics

In terms of reform, the House performed well, providing modest jurisdictional change, democratizing the House by term-limiting chairmen, promoting first-term members from apprentice to journeyman status, and consolidating power and responsibility in the hands of the Speaker. The Senate, the continuing body, plodded along in much the same old weary way. One of its shining hours saw the majority help save the minority from unilateral disarmament on the vote to abolish the filibuster.

Operationally, the year was untidy. Inexperienced leadership, long and acrimonious sessions, contentious issues, and wearied members revealed more warts and blemishes in the House than the country wanted to see. The sight, however, was not too much for the press, which wallowed in the worst of it. The Senate, normally a paragon of comity, civility, and gentlemanly back-scratching, occasionally looked as nasty as the House.

As for leadership, 1995 provided an interesting mix of old faces (Dole, Domenici, Gephardt, and Bonior) and newer ones (Gingrich, Kasich, Arme y, Daschle). Newcomers Gingrich and Daschle were particularly adept in wielding the weapons of leadership. It is easy to criticize the delays in developing the budget and the reconciliation bill, but the changes were not marginal.

Monumental policy changes don't come easily, especially in legislatures elected as much on a regional as on a partisan basis. In fact, Chairmen Kasich and Domenici made a miraculous unity out of disparate budgets. Turning the tax cut into a silk purse was harder, but nobody's perfect. Measured by promises made and kept, it was a pretty good year. Current criticism concerns the wisdom of the promises made and the unwillingness to compromise them. It does not concern the promise-keeping itself. That still seems to be considered good form in some political quarters.

New majorities brought new issues. Deregulation, devolution, and downsizing began to get action rather than lip service. Inevitably, as with every major issue, the dark side, in this case the demeaning of legitimate government service, came along too.

With respect to the usual statistical benchmarks—times of sitting, votes cast, laws enacted—the 104th Congress looks to be a hard worker with low productivity. Meeting times and numbers of votes were at record levels, while laws enacted were as scarce as hens' teeth. None of these measures is very useful in evaluating a Congress. Congress is not paid by the hour, nor is a flood of new laws necessarily welcomed by the voters.

Questions

Most people know whether they like the 104th Congress's goals and style. For a more considered eval-

uation, a flock of questions about this session must be answered personally by each American. The most obvious questions concern the Contract, its usefulness, the energy expended; the exclusive focus on the budget after Easter; the strategies of government shutdown and expiration of the debt ceiling; the role and aggressiveness of the new Republicans; the role of the Speaker and cooperation between him and the Senate Majority Leader.

The elections of 1992 and 1994 indicated that the public wanted change and that issues mattered. Polls now show Congress slipping in public favor because it pursued its goals too aggressively, the President climbing because he is defending the status quo. But current polls have only current meaning. Congress may have had misgivings, but it did not back down.

The voters will reveal their judgments in November. By then the whole budget issue may have faded away, and the usual factors, incumbency and the state of the economy, may decide the elections. Some members may be defeated because their positions were too extreme, but the voters are still restive, and business as usual is not a sure path to success either.

The Envelope, Please

Congress should be evaluated on whether its goals were worthy and whether they were achieved. Unfortunately, the most aggressive Congresses, and the 104th was certainly one, are seldom judged on their own terms. This nontraditional Congress demanded big changes in the course of government, especially fiscal policy. Its goals were neither votes nor laws nor feeling good.

In assessing its work, it is better not to compare this Congress with its more traditional predecessors. Unique may be too strong an adjective, but surely this Congress is different. Better, more up to date, real-world comparisons might be with the Japanese Diet, the German Bundestag, or the Westminster Parliament, all of which have faced difficult modern problems with minimum successes.

Personal performance ought to be assessed a little differently too. Often the Republicans looked like a clumsy majority, but the Democrats seemed an inept minority too. In fact, both toiled, sometimes in vain but always faithfully and enthusiastically for positions dearly held. If the entire cast of characters seemed excessively meanspirited, well, politics is not touch football.

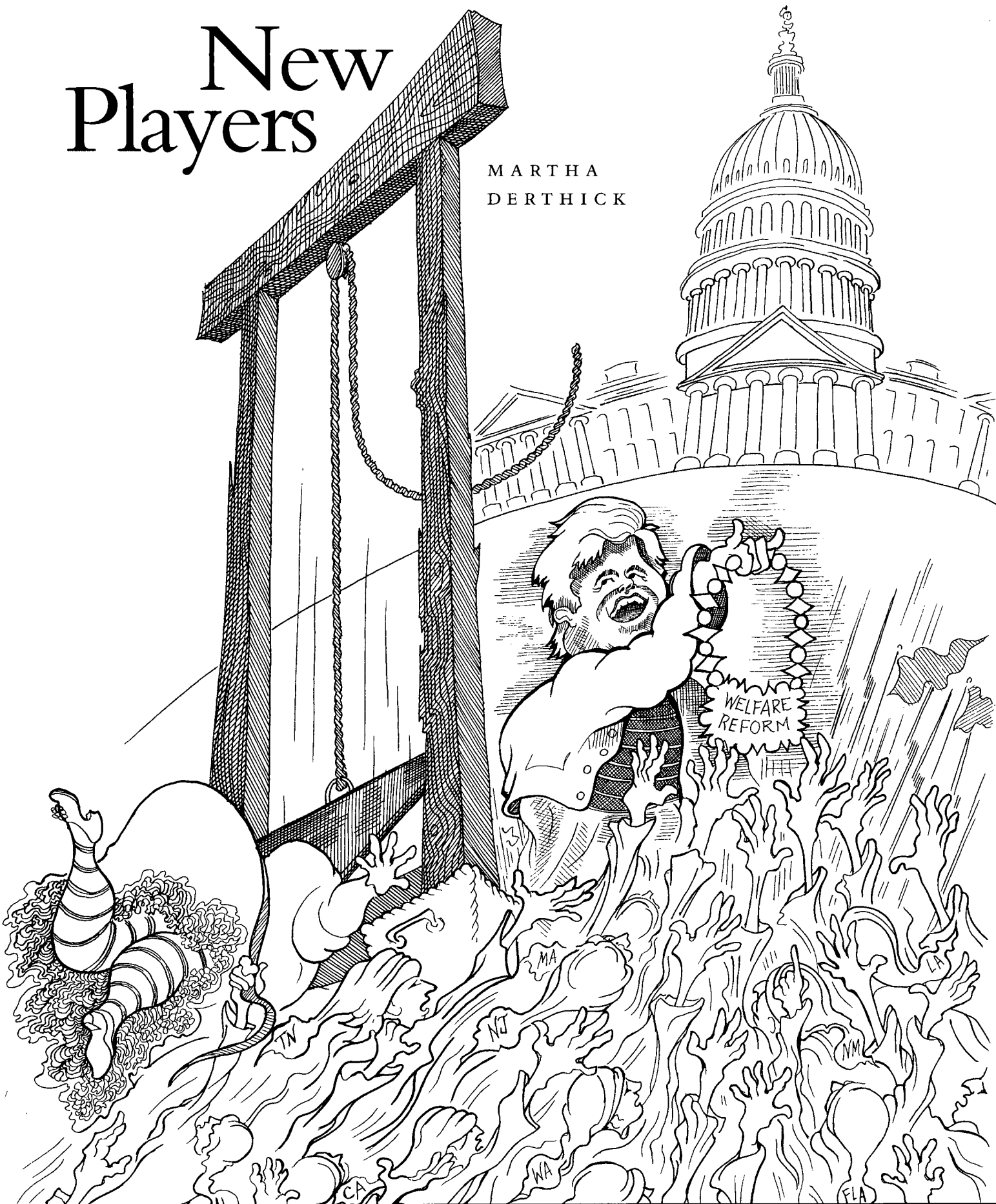
For 1995, present this Congress no medals for efficiency. Don't give it any "Miss Congeniality" awards for being nice. No pragmatism citations for clever compromise are in order either. Give it no points for neatness and none for style and grace. It did not seek and does not deserve any of those tributes.

Instead, give it a small ribbon for dreaming big dreams of big change. Throw in another for courage, for willingness to take big risks for big principles. Add one more for persistence, for hanging tough when nearly everybody advised it to cave in. You need not gild the lily by making these ribbons red, white, and blue. That's optional.

In sum, the first session of the 104th Congress may have been better than you thought. ■

New Players

MARTHA
DERTHICK



THE GOVERNORS AND WELFARE REFORM

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Whatever may happen with welfare reform in this super-heated political season, the role played by governors is worthy of notice. As in 1987–88, when the Family Support Act was passed, in 1995 governors were leading players in policymaking for welfare. Congressmen listened to what they had to say and were influenced by it. So much gubernatorial participation in policymaking departs dramatically from the usual experience in Washington. Is it possible that a new practice is emerging?

Interdependence of the federal and state governments is the norm in domestic affairs. Social Security and Medicare, if large, are exceptional in being purely national programs. In most areas of domestic policy—transportation, education, criminal justice, Medicaid and AFDC, job training, housing, community development, pollution control—intergovernmental collaboration is the rule. But collaborative institutions for policymaking are curiously underdeveloped.

Perhaps this is because Americans have been slow to adjust to the idea that mixed responsibility is the norm. The received constitutional theory is that functions should be separated. The nation was founded on the principle that certain functions were explicitly granted to the national government while all else remained with the states. In this century, the national government has steadily invaded the realm of “all else,” but the resulting confusion has never been accepted as normal. There is a long tradition of trying to “sort out” functions, shared by Republican presidents from Dwight Eisenhower to Ronald Reagan and including such eminent analysts as Richard Nathan, Paul Peterson, and Alice Rivlin.

Sorting out has not worked. Once assumed by the national government, responsibilities do not get turned back. They are tar babies. For some to be turned back even a bit, as with the effort at partially devolving AFDC and Medicaid last year by converting them from categorical to block grants, takes immense political energy and mobilization.

Intergovernmental sharing is not going to go away. Since the 1930s it has steadily deepened. The question is how to practice it constructively.

The issue is not administration. There intergovernmental cooperation has developed, often sustained by the shared professionalism of administrators at different levels of government. Relations between federal field staffs and state and local administrators are not one of the leading points of stress in American government. A greater stress point in intergovernmental relations, ironically, is Congress, the source of the “mandates without money” of which state officials have complained so bitterly.

I say “ironically” because the textbook view of Congress is that it is highly sensitive to state and local interests. But received views on that subject need to be revised. Congress is undoubtedly sensitive to the interests of state and local electoral constituencies—the voters and organized interests that finance campaigns and constitute winning majorities—but that is not to say that it respects state and local governments *per se* or the preferences of their elected leaders.

The precept that Congress can be relied on to protect state and local governments derives some credibility from having been embraced by the Supreme Court. With only occasional exceptions, such as *U.S. v. Lopez*, the surprising case in which the Court last year struck down a section of the Gun-Free School Zones Act on the ground that it exceeded Congress’s commerce clause authority, it has hewed to the doctrine that it need not protect federalism principles because they are protected by the political process.

The argument rests heavily on the structure of the Senate, in which all states are represented equally and whose members were chosen by state legislatures until the Seventeenth Amendment was adopted in 1913. But the Senate has literally never, not even from Day One in 1789, lived up in practice to its reputation as the constitutional embodiment of federalism principles and protector of the states.

The way in which it was structured assured that it could not, as a brief comparison with its lineal predecessor under the Articles of Confederation shows. In the period of true confederacy, Congress consisted of state delegations, who were subject to recall by state legislatures and compelled to vote as units. Once senators were liberated from those two constraints, as they

INTERGOVERNMENTAL COLLABORATION IT HAS STEADILY DEEPENED. THE QUESTI

were by the Constitutional Convention of 1787, they were free to go into business for themselves, which they promptly did. And long before popular election was mandated by the Seventeenth Amendment, it had existed in practice.

The belief that members of Congress protect the states *qua* states may also rest on the manifest fact that Congress has historically preferred to cooperate with state governments rather than displace them. Some of the instruments of cooperation it has devised—grants-in-aid, in particular—do serve the interests of state governments, insofar as they are free of onerous conditions.

Originally, Congress’s stance toward the states tended to be highly permissive. Early grant-in-aid statutes, such as the Federal Highway Aid Act of 1916 or the public assistance titles of the Social Security Act of 1935, have few, and not burdensome, conditions. But over the course of this century, the customs of intergovernmental relations changed, and Congress slowly and steadily began treating state governments less and less like independent governments and more and more like subordinates, subject to command.

As this change advanced, Congress discovered the political advantages of mandates without money—it could order other governments to do worthwhile things like give health care to pregnant women and children or educate handicapped children or treat sewage to a very high standard or guarantee transportation for the disabled while leaving them to figure out how to pay

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much of the cost. In this, Congress was joined after the 1960s by the federal courts, which wrought their own revolution in intergovernmental relations.

The result often has been domestic policymaking by federal decree, while frustrated governors and their budget officers and department heads devised strategies for shifting the costs right back to Washington through exploiting whatever fiscal loopholes in federal law they could find. And they found a great many. Intergovernmental cost-shifting is a game that many in America have played. Members of Congress, it is worth noting, play on both sides. After they collectively impose mandates on the states, individually they often help their own states or districts to make the most of whatever loopholes exist in federal law.

The governors have banded together in the National Governors Association, which has been their usual vehicle for approaching Congress as a group. The NGA was the instrument of their participation in framing the Family Support Act. Its effectiveness has often been limited, however, by the need for consensus. And it also tends to be perceived, alike by analysts and members of Congress, as a lobby like any other, which seeks federal benefits for its members on favorable terms, rather than as a source of policy prescrip-

mactic meetings in December and January as Gingrich sought to avoid being humbled by President Clinton.

Governors seeking a place at the policymaking table have not always been well received. A rebuff from Representative Henry Waxman (D-CA) regarding Medicaid in the late 1980s made them angry and more determined to be heard.

Perhaps Republican governors had better luck with welfare reform in 1995 because they claimed to know what to do about one of the great unsolved dilemmas of public policy—the persistence of a dependent population in an era when everyone, even a woman with children, is expected to work. Governors Engler, Thompson of Wisconsin, and Weld of Massachusetts were ready to tell newly empowered congressional Republicans just what they wanted to hear about welfare—that work programs and family caps and time limits were a fix. Thompson, at least, seemed to have grounds in the Wisconsin experiment to support such a claim.

Perhaps only in special circumstances such as the 1994 election produced will Congress reach out to governors. At work here was a calculated effort to construct a partisan force across intergovernmental lines at what seemed a moment of rare opportunity. Or perhaps we are witnessing the invention of new modes of collaboration and exchange of policy and political information that will right some of the imbalance that, at least from the states' point of view, has come to characterize federal-state relations in recent years.

After the Republican initiative on welfare reform was stymied, the governors regrouped as a bipartisan force and advanced their own proposals for compromise on welfare and Medicaid. President Clinton and Speaker Gingrich received these proposals politely without, however, springing into action.

It will be hard for national policymakers to deny governors a place at the table if they continue to behave in this way, collectively advancing considered policy positions be they partisan or bipartisan.

Such ad hoc modes of intergovernmental policymaking may hold greater promise of rectifying the imbalance in federal-state relations than more formal devices such as the unfunded mandates legislation that Congress passed last year or the constitutional amendments that appeal to academic defenders of federalism. Such amendments would, for example, require an extraordinary majority of the Supreme Court to invalidate acts of state legislatures or make it easier for states to initiate constitutional amendments. The governors have never shown much interest in such constitutional fixes. They are more pragmatic than that.

One hopes that the pragmatism of the governors will lead to more informed and realistic policymaking. Presidents and Congresses are prone to flights of fancy and wishful thinking. The true test of the governors as policymakers at the national level will be whether they improve the process in that respect. Will they bring more realism to the table and help produce legislation that is practicable? Or will they be accomplices in engineering the flights of fancy?

If and when it passes, welfare reform could pose an interesting test. ■

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tion. Federal benefits are what governors as a class, without regard to party, ideology, or constituency, are disposed to seek.

In 1995, when they divided on partisan lines—and arguably because they divided on partisan lines—governors were able to stake out a bigger role. The most vocal Republicans arrived as policy advocates, not just as supplicants trying to get the best deal from Washington—more money with fewer strings. They wanted fewer strings so badly that they were willing to accept less money.

Republican congressional leaders and governors began cooperating soon after the 1994 election that so empowered and exhilarated them. The election had brought the number of Republican governors to 30. At a meeting with them in Williamsburg, Representative Newt Gingrich, soon to take office as Speaker of the House, and Senate Majority Leader Robert Dole promised that the GOP governors would be full partners in reversing the growth of the welfare state.

Republican congressmen and governors together worked out welfare and Medicaid reform bills, and then continued their cooperation as the bills underwent revision in Congress. John Engler, who was chairman of the Republican governors and whose apparent success in cutting welfare in Michigan was taken by congressional Republicans to be an inspiring example, was occasionally present on Capitol Hill for the cli-

Burundi: There Is No Exit Strategy

BY BARNETT R. RUBIN



Last December United Nations Secretary General Boutros Boutros-Ghali proposed that the UN station a preventive military force in Zaire to prepare to intervene against massive violence or genocide in neighboring Burundi. The secretary general got the world's attention, if not its assent. But even high-level attention has not enabled the international community to formulate, let alone execute, a plan to pull Burundi back from the brink.

The stakes are high. Within the past few years one genocide has taken place, next to Burundi, in Rwanda, while massive war crimes were carried out in Bosnia practically under the noses of UN peacekeepers. Humanitarian organizations estimate that hundreds of civilians are massacred every week in Burundi right now. If the international community cannot stand against this, what does it stand for?

Burundi is a tangled, bloody mess of fear and distrust. Like its neighbor Rwanda, it was home to a centuries-old kingdom, where a caste of aristocratic cattle owners—Tutsis—lorded it over a mass of Hutu peasants. Before colonialism, the distinction between the dominant minority of Tutsis (about 15 percent) and the Hutu majority (about 84 percent) was flexible. All groups depended on a common agrarian economy.

German and Belgian colonial rules brought their racial theories—the same ones that later gave birth to Nazism—and a centralizing state controlling new resources. The racial theories hardened the lines between the two groups, while the colonial state raised the stakes for competition. Tutsis, treated by the colonialists as “natural” rulers, virtually monopolized the fruits of modernity: educa-

tion, state jobs, military careers.

Independence brought “revolution” to neighboring Rwanda, creating the Hutu regime whose successors committed genocide in 1994. But in Burundi, Tutsi military officers held on to power, unleashing political assassinations and mass killings, with hundreds of thousands of victims, whenever their power was threatened.

The current round of killings grows directly out of an attempt to resolve these conflicts. With strong external support (and pressure), Burundi's last Tutsi president, Paul Buyoya, held elections for parliament and president in 1993. The country remained calm when a Hutu-dominated party gained an overwhelming majority in parliament in June. But Buyoya and Tutsi military officers expected that grateful Hutus would elect him president in October. Instead, the Hutu opposition candidate won. A month later, Tutsi officers killed him and his family.

The price exacted by the army high command for stopping the coup has made it the most successful failed coup in history. Today the Hutu president is powerless. Parliament has not been able to enact any reforms. Extremist Tutsi militias take to the streets of Bujumbura to denounce the government: together with the army, they have purged the capital of Hutus. Hutu extremist leaders have responded in kind. Two guerrilla groups based outside the country make periodic raids, sometimes slaughtering Tutsi civilians.

For the past two years the international community has struggled to stem the killing. An active UN representative, Ahmedou Ould-Abdallah, worked with all parties to reduce fear. Many nongovernmental organizations tried to strengthen the capacity of par-

liament and other democratic institutions. But the lack of law and the lack of accountability for violence have undermined these efforts. Fear rules.

Those who earlier discussed international military action to stop a campaign of genocide appreciated the gravity of the situation. But they were seeking solutions to the wrong problems. In Rwanda, Hutu extremists could mobilize the majority; in Burundi, Tutsi control of the army is balanced by the Hutu majority. Massacres on both sides rather than a one-sided genocide are more likely; indeed, they are happening already. Such killings are much harder to stop.

The international community is now changing course. A recent UN resolution called for a comprehensive dialogue, including extremists, while also strengthening targeted sanctions (such as freezing assets) against them. But to overcome distrust and the legacy of oppression and massacres, continual engagement is required.

Such engagement can only be led by someone of stature who understands this complex conflict and has the respect of all parties. President Julius Nyerere of Tanzania, who has recently begun to work with former U.S. President Jimmy Carter on the problems of the region, is the only figure who fits that description. The international community should support Nyerere and back him up with an array of special envoys, targeted sanctions, and aid to moderates. Military pressure may indeed play a role if it is integrated into such a political strategy. But the international community must also recognize that actors in Burundi will judge the seriousness of the effort by the time and resources committed. There is no exit strategy from Burundi. ■

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The Media and South Africa

BY HOWARD WOLPE



Last January the *New York Times* ran on its front page a story headlined "As Crime Soars, South African Whites Leave." The story made great copy and quickly became "journalistic gospel." But when the Associated Press Bureau in Johannesburg was asked by its New York headquarters to undertake its own review of the issue, it found a much more complex and far more hopeful South African reality.

That crime is a major problem in post-apartheid South Africa, perhaps the major domestic problem of the moment, is widely acknowledged by virtually all South Africans. But the contention that crime is overwhelming other more positive developments and accelerating an economically destructive exodus of white capital and skills may say more about outsider perceptions and stereotypes than about what is happening in South Africa.

As the later AP Wire Service story reported, "South Africa's seminal all-race election last year did more than end apartheid and deliver power to Mandela's African National Congress. It brought relative stability to a nation wracked by political fighting and threats of civil war. Now people have started planning and dreaming." In fact, as the AP reported, South Africa's emigration rate is down, not up.

While some whites are leaving South Africa, others are returning, and the vast majority of South Africans are enormously upbeat about what people of all colors describe as their "miracle" of racial reconciliation and nation-building.

The evidence cited in the AP Wire Service story speaks for itself. After years of decline and stagnation, in 1995 the South African economy recorded 3 percent growth. In the first eight months of the year, foreign investors poured \$805

million into the South African stock market, more than in all of 1993. U.S. companies like MacDonald's and IBM are part of a stream of foreign businesses returning or opening operations in South Africa. Stock prices are up. Builders expect to create 600,000 jobs over the next five years. People are buying homes again, and realtors expect continued growth in their industry.

Further attesting to a new sense of social stability in post-apartheid South Africa are dramatically increased rates of marriage—133,309 weddings were registered in 1994, up 10 percent over 1993. South Africans at last feel able to make long-range plans and get on with their lives.

The truth is that there is tremendous variance in the crime rates both between South African communities and within communities. One can travel throughout vast areas of South Africa, both urban and rural, and feel as safe and secure as one would in America. As in virtually every industrial society, South African cities are more chaotic and crime-ridden than rural communities. And, as elsewhere, in the areas of greatest poverty, problems of crime and violence are endemic.

Crime is a particularly serious concern in sections of Johannesburg, where many residents have felt compelled to take extraordinary measures to protect their cars from hijacking or their homes from criminal invasion. But in countless communities of South Africa, people walk the streets in safety and conduct their daily lives with a sense of normalcy. That is true even in KwaZulu-Natal, the only province still plagued with political violence.

Sadly, the recently sensationalized account of crime in South Africa is typical of the two dimensionality of much reportage of Africa in the American media. African sto-

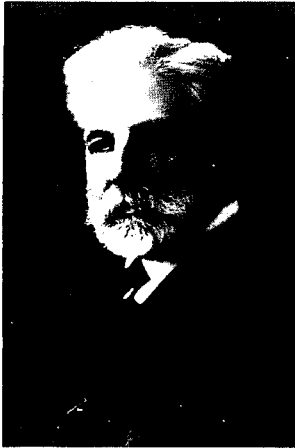
ries, playing against a backdrop of negative stereotypes and preconceptions, too often follow the pattern of "premise journalism," in which the reporter uses colorful anecdotes or quotes to support a preconceived story line, making no effort to document their representativeness.

Nor is there any contextual analysis. To report on the problem of crime in South Africa with little more than a passing reference to apartheid's destructive and brutalizing impact on its victims and on public perceptions of the criminal justice system is like reporting on the American public's response to the O.J. Simpson trial without reference to our racial history.

Reports on South Africa also tend to minimize the immense challenge South Africa faces in transforming its legal institutions. As one example, the South African Police Force, little more than the coercive arm of apartheid only two years ago, must now be transformed into a professional police agency that will enjoy the confidence of the very communities that were once the subject of its persecution and officially sanctioned violence. Nonetheless, new resources are in fact being made available for crime prevention and law enforcement. A massive retraining effort is under way. Innovative community-based policing programs are being established. And an entirely new organizational culture is slowly but surely emerging.

Indeed, the real story in South Africa is not the terrible crime and violence that are apartheid's tragic legacy, but the seemingly miraculous transformation now in process. To talk of "South Africa's crime problem" without attending to the remarkable creativity that people of all races are bringing to the search for solutions in South Africa is only to reinforce the worst kind of prejudices and misconceptions. ■

Howard Wolpe, who has recently returned from six weeks in southern Africa, is a visiting fellow in the Brookings Foreign Policy Studies program. A specialist in African politics, he was a member of the House of Representatives (D-MI) from 1979 to 1992 and chairman of the Foreign Affairs Subcommittee on Africa from 1981 to 1990.



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throughout the economy. Globalization is mainly beside the point: if a regulation is foolish, it hurts Americans whether we trade or not. And if we do trade, foolish American regulation ultimately hurts foreigners too.

Telling Americans that they will fall behind foreigners unless they mend their ways is a good way to get their attention. Thus "competitiveness." But to frame the issue in these terms is also misleading and a bit risky, for it plays on fears that trade is a zero-sum game (what if Japan and Europe "catch" us?). Nivola would have done better to have made the case for smarter regulation without playing the "competitiveness" card.

Jonathan Rauch, National Journal

Hyperlexia: Only in America

■ Having long argued that the different models of capitalism (different institutional arrangements, cultural heritages, legal

systems) have spawned a new form of international friction (system friction), I was most interested to read Pietro Nivola's "Having It All? Domestic Regulations and the Global Economy" (winter issue). He cites the unique "hyperlexia" of the American system and attributes to it a wide variety of phenomena, from corporate anorexia, to declining competitiveness, to rising protectionist pressures.

Hyperlexia is indeed uniquely American. It stems from the English common law inheritance, but is not widespread in other common law countries because they don't share the other essential ingredient, a mistrust of government born of the Revolution. The resulting privatization and legalization of policy in the United States has certainly had international spillovers and will continue to do so, especially with countries with less transparent legal systems and more tolerance of government intervention and administrative discretion. But I

see the rise of system friction driven largely by U.S. unilateralism and the notion of "unfairness"—adopt our system because yours is "unfair" or "unreasonable." Moreover, the notion of unfairness itself reflects structural asymmetries of effective market access by trade and investment, with the U.S. market the most porous in terms of both. Thus, I see the situation on the international front as largely the opposite of that proffered by Nivola. Hyperlexia no doubt imposes costs on America, but that seems to me a minor factor in the ongoing transformation of trade from a focus on border barriers to domestic regulatory and institutional arrangements.

Sylvia Ostry, University of Toronto

Derivatives and the Stock Market Rollercoaster

■ Lynn Stout ("Insurance or Gambling? Derivatives Trading in a World of Risk and Uncertainty," winter issue) has ren-

dered valuable service in her analysis of derivatives—a subject too often drowned out in abstract theorizing about risk management and the free forces of the marketplace. Instead, we see a zero-sum game, in which extremely complex instruments are often used by naifs (Metallgesellschaft) or by speculators (Orange County) to increase risk, not reduce it. Beyond that, however, derivatives encourage investors to hold large portfolios of securities, for example, long after they know them to be overpriced, thus helping to drive the market first too high and then, as happened in 1987, precipitously down. But the Merton Millers never seem to learn.

Louis Lowenstein, Columbia University School of Law

The Review welcomes comments from readers. Letters will be edited to conform to style and space.

The Changing Transatlantic Partnership

Deepening the Atlantic

Toward a
New Transatlantic
Marketplace?

Wolfgang H. Reinicke



Bertelsmann Foundation Publishers

The end of the cold war has led to some doubt concerning security policy cooperation as the primary basis of transatlantic partnership. It seems that future economic relations will become the most important item on the transatlantic agenda, considering the proposal to create a "transatlantic economic marketplace."

Wolfgang H. Reinicke, a research associate at the Brookings Institution, has been observing this new trend in transatlantic relations and is keeping a critical eye on the current developments and perspectives in the face of a world economy shaped by globalization and regionalization.

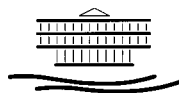
Wolfgang H. Reinicke

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"Jerry Miller's Search and Destroy is a riveting and important exploration into the criminal justice system in America today and its impact on young African American males. Everybody should read it and decide how to devoted more energy to keeping our young men out of the criminal justice system. Something is wrong with the values of a nation that would rather spend far more to lock up children than spend far less to give them a Healthy Start, a Head Start, a Fair Start, a Safe Start, and a Moral Start in life."

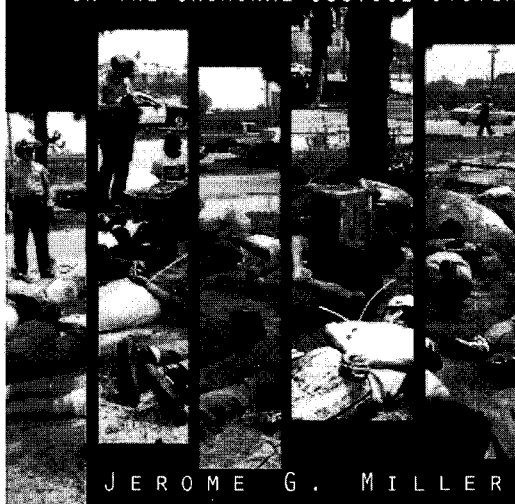
— Marian Wright Edelman, President, *The Children's Defense Fund* and author of *The Measure of Our Successes: A Letter to My Children and Yours*

In a wide-ranging survey, Jerome Miller describes bias among police officers, probation officers, courts, social scientists whose data form the basis for much public policy toward crime, and social workers whose responsibility is purportedly toward members of the underclass. He warns that the sudden rekindling of interest in genetics and crime holds even greater danger for racial minorities in their encounters with the justice system.

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SEARCH AND DESTROY

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IN THE CRIMINAL JUSTICE SYSTEM



The Crisis of Vision in Modern Economic Thought

Robert Heilbroner and William Milberg

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Michael J. Hogan, Editor

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